

Trident (TRID)

Sector: Textile /Small Cap | Earnings Update – 4QFY19

BUY

20 May 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 FY15-19, Company's Revenue and PAT grew at a CAGR of 8.6% and 33.4% to INR 52.2bn and INR 3.7bn respectively.

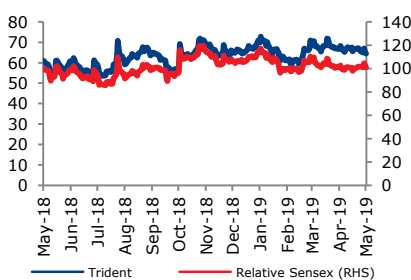
Sensex	38944
Nifty	11708
Price	INR 64
Target Price (12M)	INR 90
Recommendation	BUY
52 Week High/Low	INR 75.6/51
Bloomberg / Reuters	TRID IN /TRIE.BO
Equity (shares in mn)	509.6
Mkt. Cap in bn	INR 33/\$ 0.46
Avg. Daily Vol. ('000)	798.01
Avg. Daily Vol. (mn)	INR 50.8/\$ 0.7

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	67.77	70.77	70.77
FII (%)	1.31	1.45	1.8
DII (%)	2.31	0.39	0.24
Others (%)	28.61	27.39	27.19
Pledge (% of promoter holding)	0	0.00	0

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Revenue	52.2	54.1	57.5
EBITDA	9.8	10.0	11.1
Adj PAT	3.7	3.9	4.6
Adj EPS	7.3	7.6	9.0
% growth	41.3	3.3	18.9
PE	8.7	8.4	7.1
P/ BV	1.0	0.9	0.9
EV/EBITDA	5.1	4.5	3.6
EV/Sales	1.0	0.8	0.7
Div Yield (%)	4.7	3.1	3.7
ROE (%)	12.2	11.6	12.7

Performance %	1M	3M	12M
Trident	-4.4	4.5	6.0
Sensex	-3.7	4.0	5.0



Strong operational performance continues, albeit lower sequentially

- Trident's revenue has grown by 18.5%YoY to INR 14.05bn; Textile revenue grew by 17.1% YoY to INR 11.3bn, aided by strong in the home textile segment and Paper revenue grew 25.1% YoY to INR 2.74bn. In terms of volumes, Bed linen grew 39.4% YoY and Bath linen by 7% YoY.
- During the quarter, EBITDA stood at INR 2.59bn, grew 22.4% YoY; EBITDA margins expanded by 58bps YoY to 18.4% (albeit down from 20.8% in 3QFY19); Gross margin improved by 220bps YoY, which got offset by higher other operating expenditures, which was up by 260bps. Interest expenses were higher by 24% YoY to INR 343mn. Depreciation expenses were down by 10% YoY. Other income grew by 366% YoY. PAT grew by 82%YoY to INR 926mn; PAT margin improved by 210bps YoY to 7%.
- Textile division EBIT margin (after forex gain) stood at 8.3% up 130bps YoY; while Paper division EBIT margin stood at 37% up 940bps on low base.
- Bed linen capacity utilization improved 100bps sequentially to 74%, while Bath linen capacity utilization improved by 30bps QoQ to 49%.Yarn and Paper division capacity utilization improved marginally to (QoQ) 101% and 89% respectively.
- Company's net debt stood at INR 23.44bn with net debt to equity of INR 0.8X.
- The company is undertaking an expansion project to support backward integration in yarn segment at Budni, Madhya Pradesh, with a total capex of INR 11.4bn (expected at INR 5.5bn in 3QFY19), funded by a debt of INR 8.55bn. The project is expected to be completed by FY21E increasing the installed capacity of yarn segment by 48,842 TPA.
- The board has recommended a dividend of INR 0.6/share (FV= INR 10), which coupled with the previous dividends (totaling to INR 3/share) yields 4.7% at CMP. This apart, the board has also recommended a split of the existing shares having a face value of INR 10 into 10 shares having a face value of INR 1.

Valuation: Trident is the second largest Terry towel manufacturer and largest wheat straw based paper manufacturer in India. We expect Revenue, EBITDA and EPS to grow at a CAGR of 5%, 6% and 10.8% respectively between FY19-21E, as the operating and financial leverage play 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 8.4X & 7.1X FY20E & FY21E earnings and we rollover the valuation to FY21E and maintain the target price at 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 Govt.

Results Summary 4QFY19

Y/E March (INR mn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
Revenue	14,054	11,856	18.5%	12,914	8.8%
EBITDA	2,589	2,115	22.4%	2,686	-3.6%
Depreciation	886	982	-9.7%	892	-0.6%
Other Income	343	277	23.7%	294	16.6%
PBT	111	24	366.3%	150	-26.1%
Tax	545	371	46.9%	529	3.1%
PAT	926	509	81.9%	1,121	-17.4%
Total Comprehensive Income	989	585	69.1%	1,317	-24.9%
EBITDA Margin (%)	18.4	17.8		20.8	
Tax Incidence (%)	37.1	42.2		32.1	
PAT Margin (%)	7.0	4.9		10.2	

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