Research

CRISIL IER

Independent Equity Research

Enhancing investment decisions

Trident Ltd

Detailed Report

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Trident Ltd

October 18, 2016

Moving up the value chain

Fundamental Grade: 3/5 (Good fundamentals) **Valuation Grade:** 4/5 (CMP has upside)

Industry: Textiles **Fair Value:** ₹70 **CMP:** ₹60

Through expansion of its terry towel capacity and entry into the bed linen segment, Trident Ltd. has expanded its presence across the textile value chain. Going ahead, confluence of growth tailwinds is expected to help the company achieve utilisation ramp up across businesses, leading to higher profitability and cash flow generation. Terry towels utilisation is estimated to increase to 60% in FY18 from 40% in FY18 driven by improving demand in the US and the company's foray into new geographies. Entry into the bed linen segment - which has a large addressable market and provides cross-selling opportunities to the existing global clientele – is a good augury for future growth. Increasing cotton prices notwithstanding, operating margin is expected to expand over FY16-18E, aided by rising utilisation and higher captive consumption of cotton yarn. However, our estimates are contingent on utilisation ramp-up in the new bed linen plant. We maintain our fundamental grade of **3/5**.

Terry towel: Has the largest capacity in India, utilisation to increase

Following the expansion in FY15, Trident has the largest capacity of terry towels in India (~90,000 MT/annum, ahead of Welspun's 60,000 MT). We expect utilisation of terry towels to increase to 60% in FY18 from 40% in FY16, supported by improving demand outlook in the US (75% of total terry towel sales) as well as the domestic market, and concerted efforts to increase presence in new geographies (the Middle East, Southeast Asia and East Asia). Leveraging on its established clientele of global retailers, the company is expected to capitalise on growth.

Bed linen: Large addressable opportunity, to provide additional growth impetus

The company's bed linen facility commenced commercial production in Q4FY16. Given the large addressable market (~₹150 bn of domestic Indian and exports markets), Trident's established presence in key markets and opportunity to cross-sell to existing customers, we expect the segment to achieve 55-60% utilisation by FY18. This is likely to translate into significant accretion to revenue.

Margin to expand 60 bps over the next couple of years

We expect the impact of the sharp increase in cotton prices (~40% y-o-y in YTD FY17), following lower sowing, on operating margin to be mitigated by 1) rising captive consumption of cotton yarn (56% in FY18 from 36% in FY16), 2) rising share of high-margin home textiles and 3) increase in terry towel utilisation.

We increase our fair value estimate to ₹70 per share

We increase our earnings estimates for FY17 and FY18 by 9.1% and 5.5%, respectively. Considering the improving outlook of the home textiles business, we also revise our long-term revenue and earnings estimates. Consequently, our discounted cash flow (DCF)-based fair value is increased to ₹70 per share from ₹56 per share. This fair value implies P/E multiples of 10.7x and 8.5x on FY17E and FY18E EPS, respectively. At the current market price of ₹60, our valuation grade is 4/5.

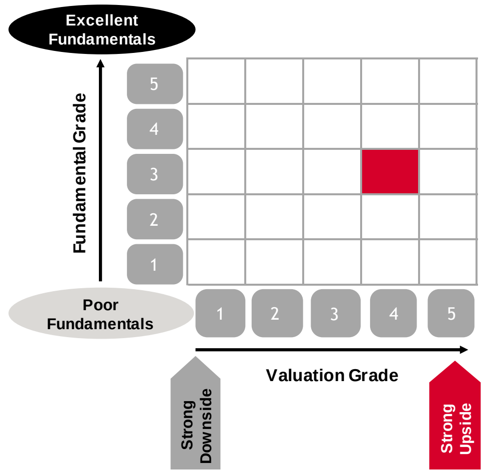
KEY FORECAST

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	38,775	37,626	36,952	46,528	52,481
EBITDA	7,405	6,762	7,303	9,301	10,701
Adj net income	1,956	1,153	2,222	3,336	4,192
Adj EPS (₹)	6.3	2.4	4.5	6.5	8.2
Dividend yield (%)	0.5	1.0	1.5	2.4	3.4
RoCE (%)	16.4	10.4	8.5	10.8	13.6
RoE (%)	23.9	9.7	14.0	18.1	19.8
PE (x)	9.5	24.7	13.2	9.1	7.2
P/BV (x)	2.0	2.0	1.7	1.5	1.3
EV/EBITDA (x)	5.0	8.1	8.7	6.5	5.3

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

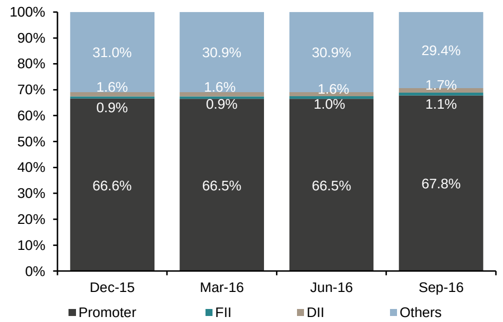
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8678/28051
NSE/BSE ticker	TRIDENT/TRIDENT
Face value (₹ per share)	10
Shares outstanding (mn)	509.6
Market cap (₹ mn)/(US$ mn)	30,575/458
Enterprise value (₹ mn)/(US$ mn)	63,438/951
52-week range (₹)/(H/L)	62/37
Beta	1.0
Free float (%)	32.2%
Avg daily volumes (30-days)	24,06,343
Avg daily value (30-days) (₹ mn)	34.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Trident	9%	24%	16%	37%
NIFTY 500	-1%	3%	12%	7%

For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Table 1: Trident - Business environment

Product / segment	Cotton yarn	Home textiles	Paper
Revenue contribution (FY16)	32%	46%	22%
Revenue contribution (FY18E)	21%	63%	16%
Geographic presence	Domestic: 76% Exports: 24% (China, Hong Kong, Bangladesh)	Terry towel: Domestic: 7% Exports: 93% (the US, Europe, Australia)	Domestic: 87% Exports: 13% (the US, UK, UAE and Sri Lanka)
Market position	The cotton yarn market is highly fragmented. Trident is one of the large players with a spindle capacity of 0.55 mn	Largest player of terry towels in India with a capacity of 90,000 metric tonnes per annum (mtpa). Commenced the bed linen plant in FY16 with a capacity of 43.2 mn meters; yet to gain traction	A prominent player in the writing & printing (W&P) paper segment with a capacity of 1,75,00 tpa. Focused in northern India
Sales growth (FY14-FY16 – 2-yr CAGR)	(14.6%) (6.5% decline in volume CAGR, 8.7% decline in realisation CAGR)	● Terry towel: 9% (12% increase in volume CAGR, 3% decline in realisation CAGR) ● Bed linen: Not applicable	(2.1%) (1% decline in volume and realisation CAGR)
Sales forecast (FY16-FY18E – 2-yr CAGR)	-2.1% (5.9% decline in volume CAGR, 4.1% increase in realisation CAGR)	● Terry towel: 25% (22% increase in volume CAGR, 2% increase in realisation CAGR) ● Bed linen: 50% y-o-y growth by FY18	2% (1% increase in volume CAGR, 1% increase in realisation CAGR)
Demand drivers	● Demand for cotton yarn is expected to grow ~3% volume-wise over FY16-21E driven by pick-up in demand for home textiles and ready-made garments ● Realisations over the next two years are expected to increase owing to lower sowing of cotton (down 16% y-o-y as on September 23, 2016)	● Improving competitiveness of India in the export markets. Demand in the US is expected to increase led by economic growth. The US Federal Reserve expects US GDP to grow in the range of 1.9-2.2% in 2017 versus 2.0% in FY16	● Domestic demand for W&P paper is expected to rise owing to the government's spending on education and rise in corporate demand. However, switch to electronic media from paper by large corporates in the overseas market is expected to offset volume growth
Key competitors	● Vardhman Textiles Ltd, KPR Mills, Nahar Spinning Mills Ltd	● Terry towels: Welspun India Ltd, Alok Industries Ltd ● Cotton bed sheets: Welspun India Ltd, Alok Industries Ltd and Indo Count Industries Ltd	● JK Papers Ltd, Tamil Nadu Newsprint Papers Ltd, Ballarpur Industries Ltd, West Coast Paper Mills Ltd
Key risks	● Competition from unorganised and large players ● Volatility in cotton prices	● Significant appreciation in the rupee vs the US dollar and euro may impact earnings ● Rise in competition from China, Pakistan and Bangladesh	● Increase in prices of raw materials - wheat straw and pulp ● Rise in competition from larger players

Source: Company, CRISIL Research

Grading Rationale

At the cusp of a new phase

We believe Trident is at the cusp of a new phase marked by higher free cash flow generation and a stronger balance sheet. Over the past few years, the company has been in capex mode, which has resulted in sporadic cash flow generation – it has generated free cash flows in only two years in the last decade. However, with utilisation improvement on the cards, and no major capex plans in the near future, significant free cash flows are likely to be generated which is expected to be used in deleveraging the balance sheet.

Incremental cash from operations likely to be utilised for debt repayment

Through expansion of its terry towel facility and entry into the bed linen segment, Trident is also moving up the textile value chain and emerging as an integrated home textiles player – the home textile segment is expected to contribute 63% of total revenue, up from 46% in FY16. We view rising share of this less commoditised, high-margin business as a positive.

Revenue share of the high-margin home textile segment to increase

Going forward, the utilisation across businesses is likely to increase – 1) terry towel utilisation is expected to increase to 60% in FY18 from 40% in FY16, 2) the recently commissioned bed linen utilisation to 55-60% in FY18, and 3) cotton yarn utilisation to 95% in FY18 from 91% in FY16. The following factors are likely to drive up utilisation -

- Gradual pick-up in demand in the US and foray into new geographies to drive terry towel utilisation;
- Large addressable market in bed linen, coupled with the advantageous position of India in the home textiles market, and cross-selling opportunities to the existing clientele are likely to augment bed linen utilisation; and
- Captive consumption by terry towel and bed linen should drive the cotton yarn utilisation.

Terry towel: Utilisation set to increase

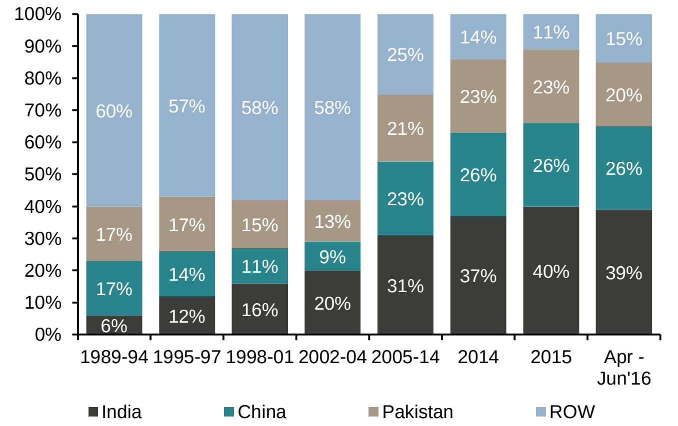
Steady US demand + foray into new geographies = Healthy exports growth

Driven by steadily improving consumption spending, demand for home textiles in the US (75% of Trident's total terry towel sales) is likely to increase going ahead, which bodes well for the company. Consumer spending in the US has improved marginally in Q2CY16. Wage rise and unemployment data have been largely stable over the past few months. Given the advantageous position of Indian home textile players in the US market (India's share in US home textiles market has risen to 40% in 2015 from ~6% in 1995), demand uptick and a robust clientele (comprise JC Penny, Target, Walmart and others) we expect its terry towel exports to the US to pick up in coming years.

US consumer spending increased marginally in Q2CY16

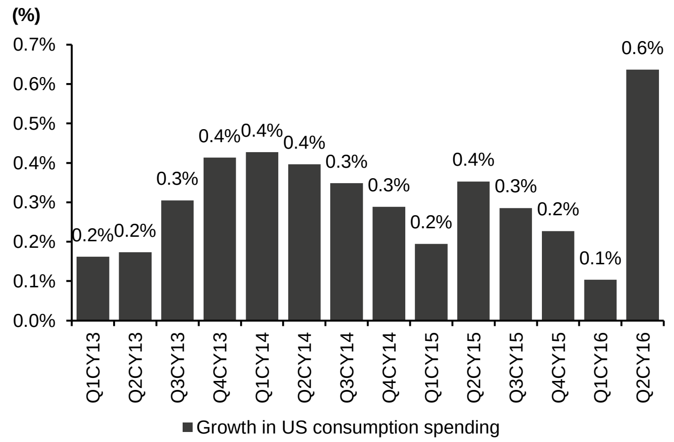
Additionally, foray into newer geographies is likely to provide stimulus to terry towel sales. Over the past couple of years, the company has expanded its presence in newer markets such as the Middle East, China and Latin America, through concerted efforts. It has set up a 100% subsidiary - Trident Europe Ltd - to expand its distribution reach in Europe, and is increasing marketing efforts in the region. It is also eyeing to acquire new customers in the Middle East, Southeast Asia and East Asia.

Figure 1: India's terry towel share in the US on the rise



Source: Industry, CRISIL Research

Figure 2: US consumption spending inched up in Q2CY16



Source: CRISIL Research

Domestic demand outlook is also turning favourable

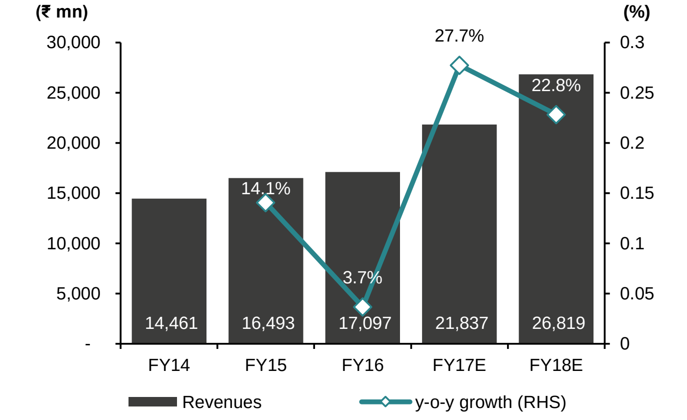
Ramping up marketing initiatives in the domestic

Resilient urban spending and increasing marketing efforts are expected to drive the domestic demand for terry towels. Urban consumption, which has been resilient (as visible in healthy car and utility vehicle sales) over the past few months, is expected to improve on the back of soft inflation, higher government pay-outs and improving macroeconomic parameters. Moreover, the company has increased its marketing initiatives in the domestic market – has tied up with ~300 multi brand outlets, and is focusing on increasing its presence in the institutional segment. These efforts are bearing fruit and the acceptance of the company's products among the institutional players are increasing steadily, as suggested by our channel checks – the company has added clients such as Taj Hotels, Oberoi Hotels and Hilton Hotels. Although the domestic market accounts only for ~7% of the total terry towel sales, we expect robust growth in this market to provide additional fillip to revenue.

Adequate capacities in place, utilisation likely to increase

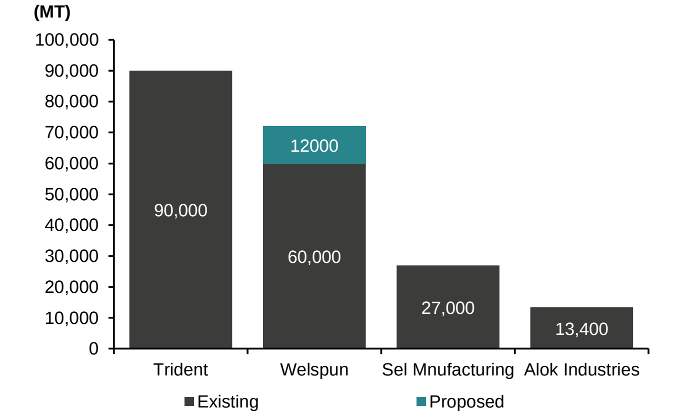
Driven by favourable demand outlook in exports and domestic markets, the company's terry towel sales are likely to increase at a healthy 25% CAGR. Subsequently, utilisation is expected to increase to 60% from 40%. With expansion of its terry towel capacity to ~90,000 MT/annum, the company now has the largest terry towel manufacturing facility and is geared up for growth.

Figure 3: Revenue from terry towels to grow at a CAGR of 25% over FY16-18E



Source: Company, CRISIL Research

Figure 4: Trident has the largest terry towel capacity in India



Source: Company, CRISIL Research

Bed linen: To provide growth impetus

One of the largest bed linen players in terms of capacities

Has the fourth largest manufacturing capacity of bed linen in India

Trident entered the bed linen business by commissioning the 43.2 mn meters bed linen capacity in Q4FY16. This makes it one of the largest bed linen manufacturers in India, in terms of production capacity - after Alok Industries (105 mn meters), Indo Count (90 mn meters) and Welspun (90 mn meters). At full utilisation, the plant can generate ₹11,000-12,000 mn revenue. Utilisation is 10% as of Q1FY17, which we expect to ramp up to ~60% in the next couple of years.

Key takeaways from the plant visit

We visited the textiles plants of Trident in Barnala (Punjab) and Budhni (Madhya Pradesh). The key takeaways from the plant visit are as follows:

- The company has two facilities in Barnala – Sanghera and Dhaula. The former houses the cotton yarn facility, and the latter can manufacturer terry towel and paper. The Budhni facility is an integrated plant which produces cotton yarn, terry towel and bed linen.
- The Budhni plant is fully operational. The plant is based on modern technology and has high automation levels. For example - integration of plant machinery with SAP ECC 6, which helps monitor productivity and improve efficiency.
- The bed linen plant started commercial production in Q4FY16 and the current capacity utilisation is ~10%.

Bed linen: Large addressable market; India placed favourably

The global bed linen market size is estimated to be US$15-18 bn (~35-40% of the total global home textile industry) - of which the US accounts for a sizable portion. Size of the domestic bed linen market is estimated to be ~₹150 bn (domestic + exports). This represents a large addressable market for the Indian home textile players.

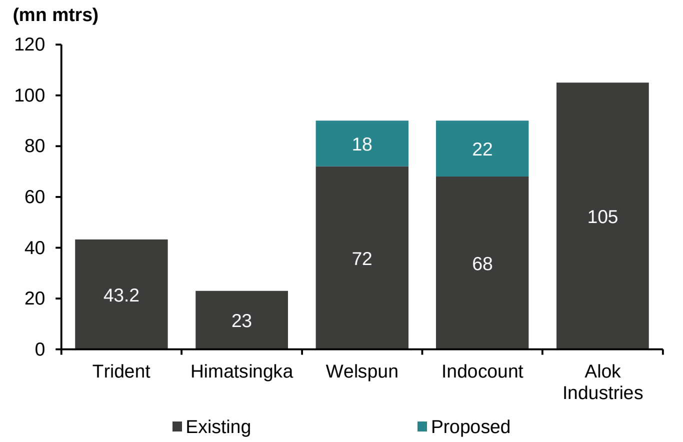
Over the past decade, India has emerged as a preferred supplier to the US – its share in US imports increased to ~50% in FY16 from ~20% a decade ago. This was driven by 1)

India's cost advantages over other textiles exporters such as China and Pakistan, 2) easy availability of cotton, 3) stable geo-political situation and compliance with labour norms, and 4) supportive government policies for textiles. We expect Indian home textiles exporters to continue to benefit from the favourable positioning in the US home textiles market going forward.

India's share in US bed linen imports increased to ~50% from ~20% a decade ago

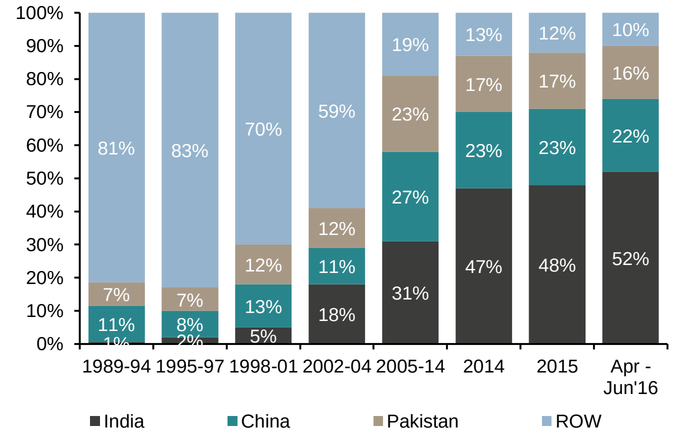
The organised players cater to export demand for higher quality products from large organised retailers such as Walmart, Target, Macy's, Bed Bath and Beyond and others. It is largely an oligopolistic industry dominated by few players including Alok Industries, Indo count and Welspun.

Figure 5: Trident has emerged as one of the largest bed linen players in India



Source: Industry, CRISIL Research

Figure 6: India's share in bed linen exports to the US on the rise



Source: Industry, CRISIL Research

Significant cross-selling opportunities

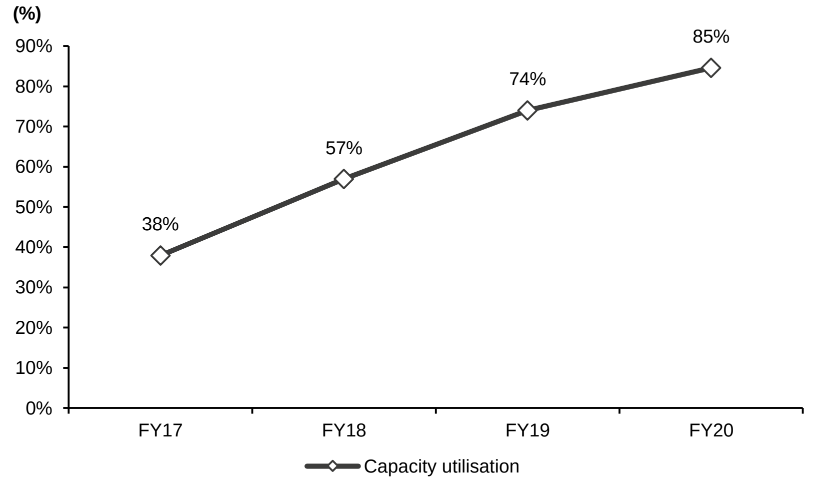
Trident, with an established relationship with large retailers such as Walmart, Target, JC Penny, is well placed to cross-sell its bed linen products to the existing clients. The company is planning to tap into its existing clientele and emerge as a one-stop shop for clients' bed and bath linen requirements. Cross-selling to the existing customers, leveraging its long-standing relationship, should help the company improve capacity utilisation at the bed linen plant.

Expect utilisation to reach 55-60% over the next couple of years

Bed linen segment to contribute ~12% of total revenue by FY18

Driven by the aforementioned factors, we expect the company's bed linen utilisation to increase to 55-60% over the next couple of years. Accordingly, we expect bed linen revenue to reach ₹6.2 bn by FY18E - ~4-5% of the current addressable market of ~₹150 bn. Given the strong positioning of the company in the US, robust clientele to whom it can cross-sell its bed linen products, and reduced competitive intensity (as one key competitor is facing operational problems), we believe the company can ramp up its utilisation levels significantly.

Figure 7: Bed linen capacity utilisation to increase to 85% by FY20



Source: CRISIL Research

Cotton yarn: Rising captive consumption to ensure increase in utilisation

Rising captive consumption in cotton yarn is expected to ensure utilisation ramp up. The company plans to meet the incremental cotton requirement arising out of the utilisation ramp up of terry towel and bed linen facilities through captive consumption. Resultantly, the share of the captive consumption of cotton yarn is expected to rise to 56% in FY18 from 36% in FY16, as per our analysis. Although headwinds in exports may post growth challenges for cotton yarn exporters, higher captive use is expected to drive Trident's cotton yarn utilisation to increase to 95% in FY18, from 91% currently. Owing to rising captive consumption, external sales volume is expected to decline to ~53,000 tonnes in FY18 from ~59,000 tonnes in FY16.

Captive consumption of cotton yarn to increase to 56% in FY18 from 36% in FY16

Domestic sales to be driven by higher RMG demand…

Currently, the company sells ~35% of its cotton yarn to domestic fabric players – such as Arvind Ltd, KG Denim Ltd, Jindal Denim, and others – who in turn cater to the ready-made garment (RMG) players. Over the next couple of years, domestic demand for RMG is expected to improve on the back of gradual uptick in consumer spending and improving realisations. CRISIL Research expects growth of the industry to be 7-7.5% over 2015-20 in value terms compared with 9.6% CAGR over 2010-15. Moreover jeans, one of the key cotton yarn consuming segments within RMG, is expected to grow at a faster pace and post 10%+ growth over the next couple of years. Growth uptick in the end-user industries and established clientele are likely to aid domestic cotton yarn sales for the company in the near term.

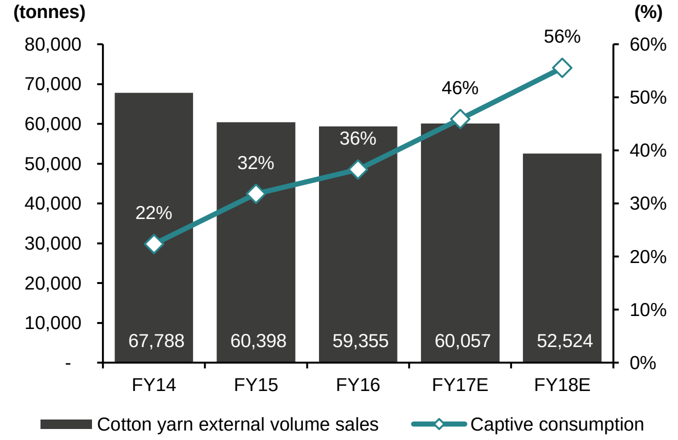
…But exports to be under pressure

Although domestic offtake is likely to pick up, India's cotton yarn exports are expected to decline in the near term owing to 1) shifting of orders to Bangladesh following an improvement in working conditions, 2) subdued growth in the key EU and non-traditional markets, 3) lower exports to Vietnam and Turkey as capacities in these countries have

Expect external sales volumes of cotton yarn to decline at a 5% CAGR over the next couple of years

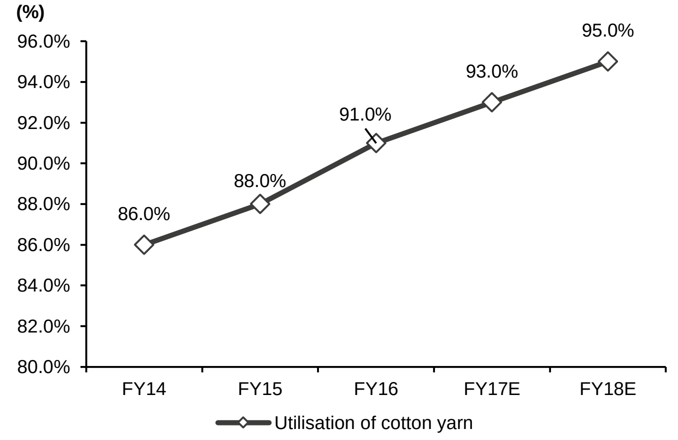
increased (exports declined ~60% and ~40% y-o-y, respectively, in FY16), and 4) impact of the TPP agreement. However, rising captive consumption of cotton will reduce outside sales of cotton yarn. As a result, CRISIL Research expects cotton yarn exports to remain flat in FY17.

Figure 8: Captive consumption to increase…



Source: Company, CRISIL Research

Figure 9: …Translating into higher utilisation



Source: Company, CRISIL Research

Trans-Pacific Partnership (TPP) may pose a long-term threat to Indian textile exporters

The TPP agreement, signed on February 4, 2016, is a 'yarn forward' provision which requires yarn and fabric used in the final product to be manufactured in one of the free trade partners to qualify for duty-free treatment under the trade pact. Since India is not a member country in this free trade agreement, its exports of yarn and yarn derivatives to the member countries of TPP attract import duty and are expected to decline in the long run.

Although it is a threat in the long term, we do not see a significant impact on terry towel and bed linen exports of India as the duty applicable on terry towel and bed linen imports in the US from India is only 3.3% and 6.7%, respectively; much lower than the duties applicable on apparel and fabric segments (~10%). Hence, the cost advantage to other terry towel and bed linen exporting countries is lower than that to the apparel and fabric exporting countries. Moreover, Vietnam, one of the key countries under the TPP agreement, currently lacks capacity for terry towel and bed linen segments. Hence, we see little near-term threat for the home textiles exports from India.

Competitive landscape of home textiles industry: Trident has emerged as one of the leading players

- Trident has emerged as one of the leading integrated textiles manufacturers in India, with presence in terry towels, bed linen and cotton yarn
- It currently has the largest capacity of terry towels in India with ~90,000 MT/annum, ahead of Welspun (60,000 MT/annum). It has the fourth largest capacity in bed linen as well with 43.2 mn metres after Alok Industries (105 metres), Welspun (72 mn metres), and Indo Count (68 mn metres).

Table 2: Trident has the largest capacity in terry towels and one of the largest in bed linen

As of FY16	Trident	Welspun	Indocount	Himatsingka
Home textiles product mix	Terry towel Bed linen	Bed linen Terry towel Carpets and rugs	Bed linen	Bed linen Drapery & upholstery
Revenue (₹ mn)	36,952	60,328	21,741	18,868
Revenue growth (%) (5 year CAGR)	7.8%	23.2%	24.4%	8.9%
Existing capacity	Terry towel: 90,000 metre Bed linen: 43.2 mn metre	Terry towel: 60,000 metre Bed linen: 72 mn metre Bath rugs: 8,000 sq metre	Bed linen: 68 mn metre	Bed Linen: 23 mn metre Drapery & Upholstery: 2.2 mn metre
Planned capacity expansion (FY17)	-	Terry towel: 72,000 metre (60,000 in FY16) Bed linen: 90 mn metre (72 in FY16) Bath rugs: 10,000 sq metre (8,000 in FY16)	Bed linen: 90 mn metre (68 in FY16)	NA
EBITDA margin (%)	19.8%	26.8%	20.9%	16.5%
RoCE (%)	8.5%	26.1%	47.6%	15.1%
Debt/EBITDA	4.7x	1.8x	0.8x	3.0x
Interest coverage	2.9x	5.2x	7.9x	2.6x

*Note: Financial figures as of FY16

Source: Company, CRISIL Research

Paper: Expect growth to be moderate going forward

Trident commands the highest EBITDA margin among paper players

We expect growth in Trident's paper business to be moderate at 2% CAGR over the next couple of years, given stiff competition and increasing preference for dissemination of information using electronic media – we forecast revenue to grow at a CAGR of 2% in value terms, with 1% CAGR each in volumes and realisation.

Emergence of electronic media, competition likely to constrain growth

Paper revenue to log a moderate 2% CAGR over the next couple of years

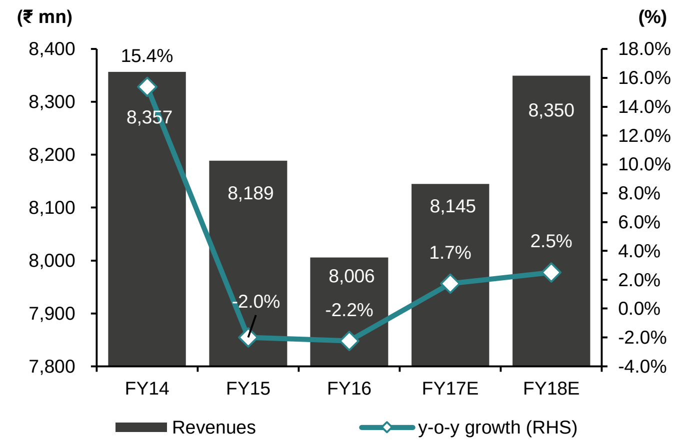
Increasing preference for online storage and dissemination of data and information is a threat to growth in paper demand. Measures such as e-governance and paperless offices may also impact demand. Also, paper manufactured from wheat straw has lower brightness compared to paper made from wood pulp, which may act as a hindrance to growth for the company. We expect these factors to lead to lower demand for Trident's paper. Additionally, the paper industry is saddled with high capacities and Trident, being one of the smaller players, faces stiff competition from larger players such as JK Paper, TNNP, APPM, Ballarpur and others.

Value-added copier paper to grow at a faster pace

Going ahead, growth in the paper segment is expected to be primarily driven by the value-added copier paper. Trident currently derives ~55% of its paper sales from copiers. Sales declined to ₹8 bn in FY16 with realisations moderating by 4% y-o-y to ₹51,871/tonne, owing to 1) increase in competition following excess supply – the industry's current operating capacity is ~14 mn tonnes and overall paper consumption is ~13 mn tonnes and 2) weak demand from corporates due to overall slowdown across industries leading to lower corporate spending. Going forward, CRISIL Research expects demand for Maplitho writing and printing (W&P) paper to inch up to 3% over FY16-21E (from 2% over FY10-15) on account of a rise in corporate spending on stationery, primarily in the service industry. Driven by favourable demand, copier paper sales of the company are expected to grow faster than overall paper sales.

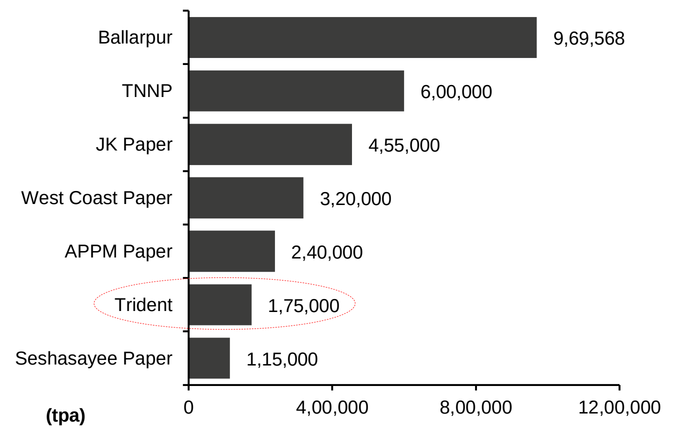
Copier paper currently accounts for ~55% of total paper sales

Figure 10: Sales expected to grow at 2% CAGR over FY16-18E



Source: Company, CRISIL Research

Figure 11: Trident had one of the lowest capacities in FY16



Source: CRISIL Research

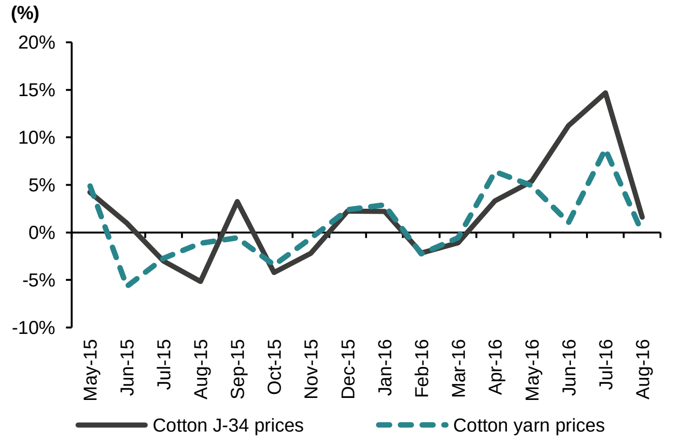
EBITDA margin to remain stable despite rising cotton prices

Rise in cotton prices may impact gross margin…

Cotton and cotton yarn prices have risen over the past few months by 14% and 8%, respectively, until August FY17. This was led mainly by decrease in cotton acreage in cotton season 2015-16 owing to lower prices and pest fly attack in the northern region. Considering the company's gross margin is impacted by change in cotton yarn prices (as corroborated by historic data), we expect the recent increase in prices to impact gross margin going ahead. Though this may not have an immediate impact as the company stocks six months of cotton, it could adversely affect if prices continue to sustain in cotton season 2016-17 as well.

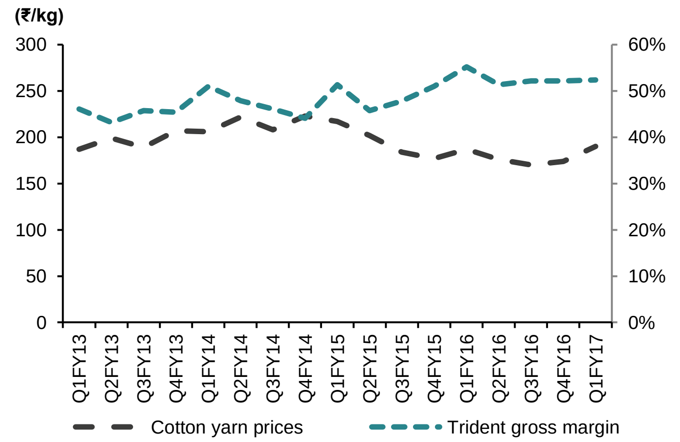
Until August FY17, cotton and yarn prices have risen 14% and 8% y-o-y

Figure 12: Cotton prices have risen in recent months



Source: CRISIL Research

Figure 13: Trident's gross margin has close correlation with yarn prices



Source: CRISIL Research

…But operating leverage benefits, rising captive consumption to insulate EBITDA margin

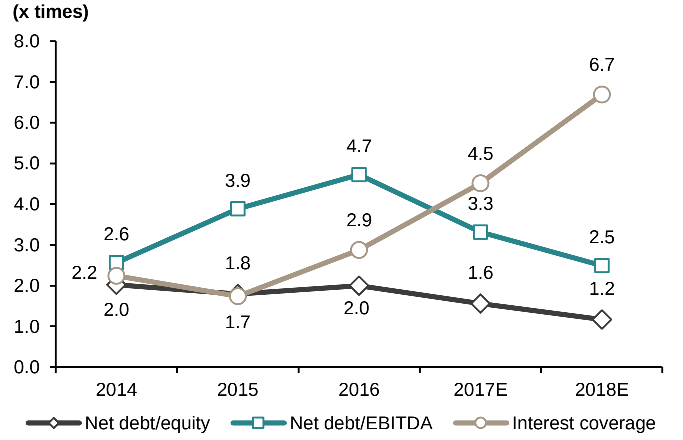
EBITDA margin to expand to 20.4% from 19.8% in FY16

Although rising cotton prices are likely to impact gross margin, we believe several factors should offset its impact on operating margin – 1) operating leverage benefits stemming from higher realisations across terry towels, cotton yarn and bed linen, 2) rising captive consumption of cotton yarn, and 3) higher contribution from high-margin value-added home textiles and copier paper products. Owing to these factors, we forecast a 60 bps expansion in operating margin over the next couple of years. However, our margin forecast is contingent on the utilisation ramp-up of terry towel and bed linen capacities – if the ramp-up is below our expectations, it may adversely impact operating margin.

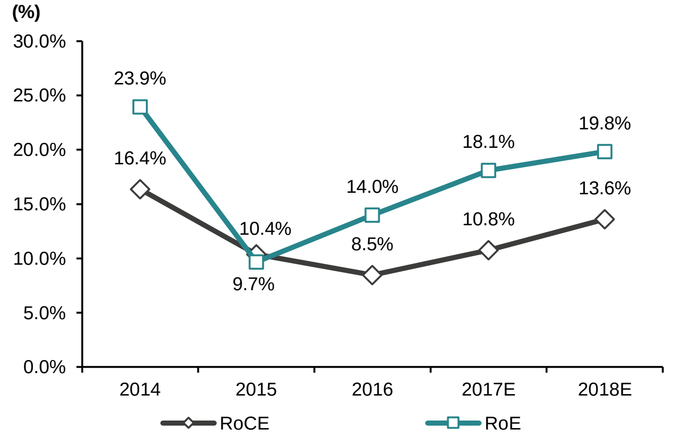
No fresh capex plans in near-future; cash flows to be utilised to repay debt

With the completion of the terry towel facility and commissioning of the bed linen plant, the company has completed its ongoing capex plans and does not have any capex plans. Instead it is focusing on increasing its marketing and client engagement efforts to ramp up utilisation. With utilisation expected to increase across product segments, expanding margins and minimum capex requirement, the company is likely to generate substantial free cash flows which it plans to utilise in repaying debt and in paying dividend. We believe this will lead to a stronger balance sheet and reduce the financial leverage risks of the company.

Figure 14: Higher cash generation to reduce debt and improve coverage ratios and RoCE



Source: Company, CRISIL Research



Source: Company, CRISIL Research

Key Risks

Inability to pass on increase in raw material prices

The cost of raw materials (cotton, cotton yarn and wheat straw) accounts for ~50% of Trident's operating cost. The recent rise in raw material prices is likely to have a significant impact on the company's margin. While we believe it may be able to pass on some of the price hike to its customers, inability to do so may impact its revenue and PAT.

Appreciation of the rupee

Currently, the company exports constitute 50-55% of revenue. The company exports to various geographies including the US, EU, LATAM, and Middle East. Any sharp appreciation in the rupee against other currencies may impact realisations and profitability.

Delay in getting customer approvals and ramp-up of bed linen

We expect the company to achieve ~60% utilisation rate in the bed linen unit by the end of FY18. However, slower-than-expected ramp-up in sales owing to delay in getting customer approvals or orders will significantly impact sales and, therefore, PAT.

Disruption in client relations

Although the company has long-standing relationship with most of its clients and also has adequate internal controls and processes any disruption in relationship with one of the larger clients owing to product quality and/or other issues may impact the company's revenue and profitability.

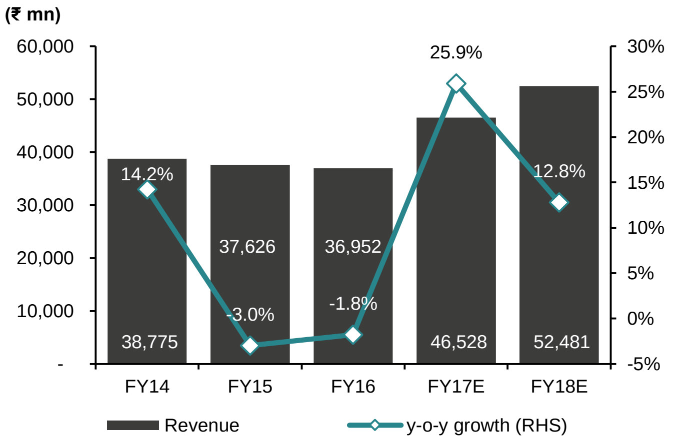
Financial Outlook

Revenue to grow at a two-year CAGR of 19%

Revenue is expected to increase at a CAGR of 19.2% over the next two years. The recently commisssioned bed linen segment is expected to grow the fastest at 53% value-wise in FY18 over FY17, albeit from a low base, driven by addition of customers. The terry towel segment is likely to post healthy CAGR of 25% value-wise over FY16-18E, augmented by an uptick in consumption spending in the key markets such as the US. Yarn volume sold is expected to decline ~6% over FY16-18E owing to increase in captive consumption, which is expected to increase to 56% in FY18E from 36% in FY16. The paper segment's revenue is expected to increase 2% over FY16-18E owing to recovery in corporate and institutional demand for paper.

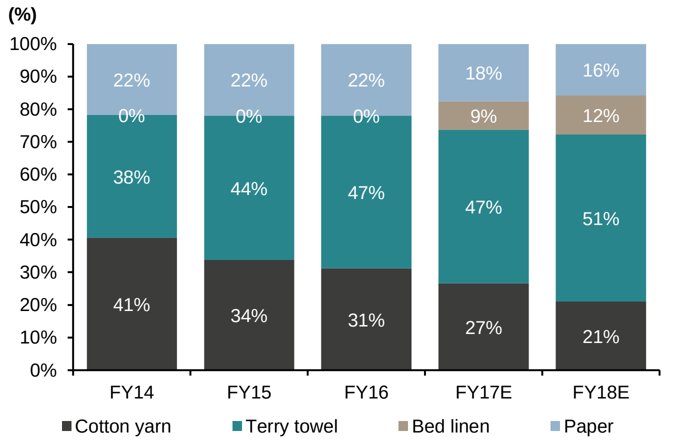
Core revenue growth over FY16-18E to be driven by terry towel and bed linen segments

Figure 15: Revenue growth to pick up in FY17



Source: Company, CRISIL Research

Figure 16: Share of terry towel and bed linen to increase



Source: Company, CRISIL Research

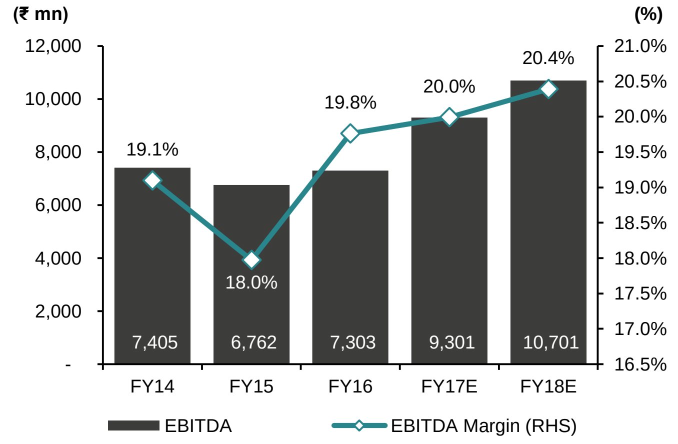
EBITDA margin to expand by 60 bps over the next couple of years

Driven by operating leverage benefits stemming from higher utilisation and rising captive consumption of cotton yarn, operating margin is likely to expand by 60 bps over the next couple of years. In FY16, a drop in cotton prices, coupled with a rise in the share of value-added products (36% in FY16), drove 180 bps y-o-y expansion in EBITDA margin. Going forward, despite a 40% rise in cotton prices and ~22% in yarn prices in YTD FY17 from 9% in YTD FY16, we expect EBITDA margin to increase by ~60 bps to 20.4% in FY18E because of 1) operating leverage benefits due to higher realisations in the home textile segment, 2) rising share of high-margin value-added products, and 3) rising captive consumption of cotton yarn. However, our margin forecast is contingent on the utilisation ramp-up of terry towel and bed linen capacities – if the ramp-up is below our expectations, it may adversely impact operating margin.

Adjusted PAT to grow at 37.4% CAGR over FY16-18E

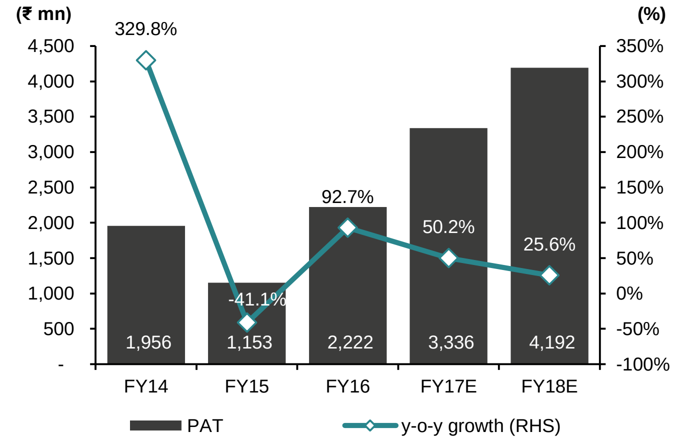
Driven by higher top line and lower interest cost, adjusted PAT is likely to grow at a robust two-year CAGR of 37.4% to ~₹4 bn by FY18E. Accordingly, PAT margin is expected to increase to 8% in FY18 from 6.0% in FY16.

Figure 17: EBITDA margin to expand by 60 bps over FY16-18E



Source: Company, CRISIL Research

Figure 18: PAT expected to post a two-year CAGR of 37.4% over FY16-18E



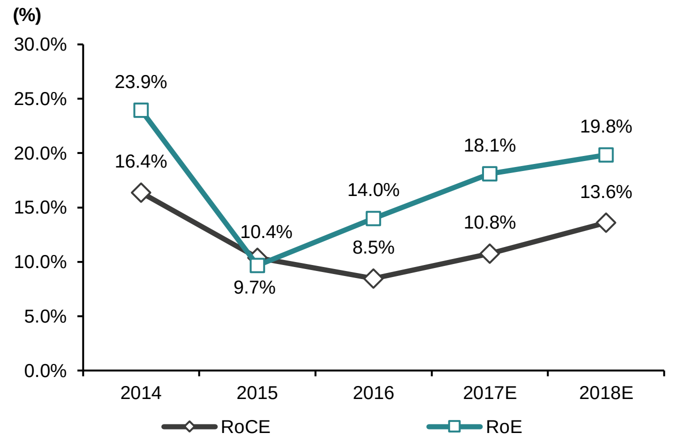
Source: Company, CRISIL Research

Higher utilisation levels to drive improvement in return ratios

Driven by ramp-up in utilisation levels, gross asset turnover is expected to improve over FY16-18 to 0.8x from 0.7x currently. This is expected to drive an improvement in return ratios. RoE and RoCE are expected to expand to 18.8% and 13.4% in FY18E, respectively, from 14% and 8.5% in FY16.

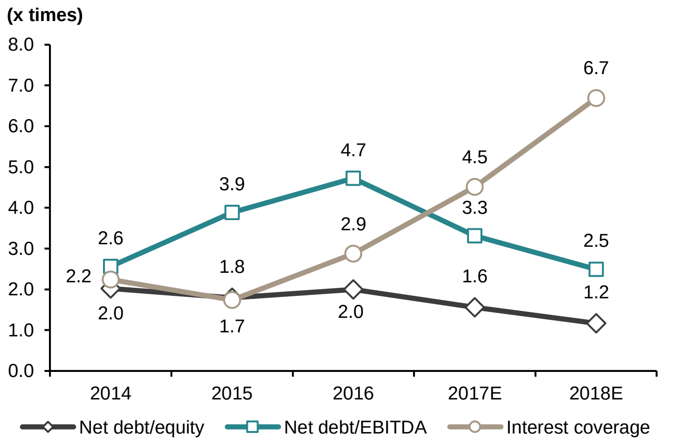
RoCE expected to improve to 13.6% by FY18 from 8.5% currently

Figure 19: RoE and RoCE to expand…



Source: Company, CRISIL Research

Figure 20: …driven by higher asset turn



Source: Company, CRISIL Research

Earnings estimates revised upwards

Particulars	Unit	FY17E			FY18E		
		Old	New	% change	Old	New	% change
Revenue	(₹ mn)	44,960	46,528	3.5%	52,080	52,481	0.8%
EBITDA	(₹ mn)	9,175	9,301	1.4%	10,732	10,701	-0.3%
EBITDA margin	%	20.4%	20.0%	-41bps	20.6%	20.4%	-21bps
PAT	(₹ mn)	3,058	3,336	9.1%	3,972	4,192	5.5%
PAT margin	%	6.8%	7.2%	37bps	7.6%	8.0%	39bps

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY17-18E
Revenue	Raised on account of an improved home textiles demand outlook in its key market - the US - and pick-up in the domestic market
EBITDA margins	Decreased marginally owing to increase in cotton prices
Adjusted PAT	Increased in line with EBITDA. Further, since the capex cycle is over and the company is expected to generate free cash flows, debt and, simultaneously, interest cost would be reduced

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors, such as industry and business prospects, and financial performance.

Experienced top management…

Mr Rajinder Gupta, promoter and non-executive chairman of Trident, is a first generation entrepreneur with an experience of more than 20 years in the industry. He was awarded the Padmashree for services in trade and industry. He is supported by Mr Abhishek Gupta, CEO, Mr Gunjan Shroff, CFO and team of professionals.

…Aptly supported by a strong second line

The second line, which has industry professionals with domain expertise, manages all the business segments. Based on our interaction, we believe the second line ably supports the top management.

Successfully moved up the textile value chain; expanded into new geographies

Over the years, the management has successfully demonstrated the capability to execute growth strategies. Under the guidance of the management, the company has successfully moved up in the textile value chain and has increased the revenue share of high-margin home textiles business. Moreover, it has also entered into new geographies for its export markets which positions it well to ramp up utilisation.

New product development and the strategy to move across the home textile value chain to enable Trident to maintain profitability and gain market share

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, the corporate governance practices at Trident meet the requisite standards, and are supported by reasonably good board processes and practices.

Board composition and processes meet requisite norms

Trident's board comprises five members of whom three are independent, which is in accordance with the stipulated SEBI guidelines. The attendance of independent directors at the board meeting is high. The roles of the chairman and the managing director have been segregated. The board is chaired by Mr S.K. Tuteja, a non-executive independent director who also chairs the audit committee. The company has all the necessary committees – audit, remuneration, and investor grievance – in place.

Satisfactory disclosure levels

Based on the information furnished in the annual reports, presentations, websites and quarterly earnings call, we believe Trident's disclosure levels are satisfactory. For instance, the segment-wise, operating-level details are furnished on a quarterly basis. It also organises a quarterly earnings concall. The company was also forthcoming in sharing information with us.

Other highlights

- **Started paying dividend:** Over the past three years, the company has started dividends – over FY15-16, it has maintained a payout ratio of 20% or more. We view this as a positive.
- **Limited related party transaction:** As per the annual report of FY16, the related party transactions are insignificant compared with the net worth of the company.
- M/s Deloitte Haskins & Sells, one of the reputed audit firms has been the auditors of the company for the past few years.

Valuation Grade: 4/5

We have increased our earnings estimates by 9.1% for FY17 and by 5.5% for FY18. Considering the company's long-term growth prospects, we have revised our long-term revenue and earnings estimates. Consequently, we have increased our fair value to ₹70 per share from ₹56 per share. The fair value implies P/E multiples of 10.7x and 8.5x on FY17E and FY18E EPS, respectively. At the current price of ₹60, our valuation grade is **4/5.**

We have increased the fair value to ₹70 from ₹56

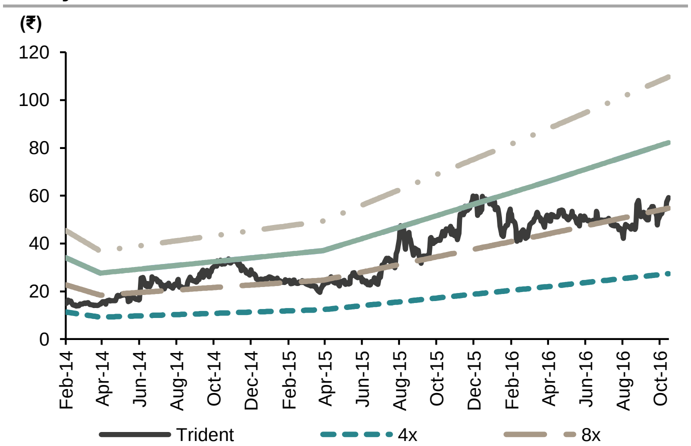
Key DCF assumptions

- We have taken FY18 as the base year and have discounted the estimated free cash flows from FY17E to FY25E.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period.

WACC computation

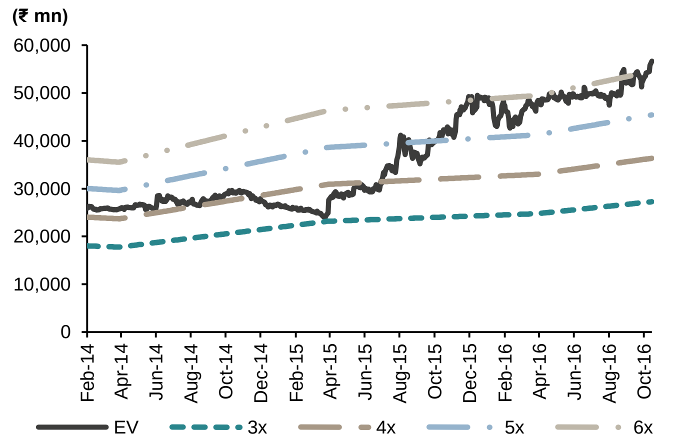
	FY17-25E	Terminal value
Cost of equity	19.9%	19.9%
Cost of debt (post-tax)	5.1%	4.6%
WACC	**10.1%**	**13.0%**
Terminal growth rate		3.0%

One-year forward P/E band



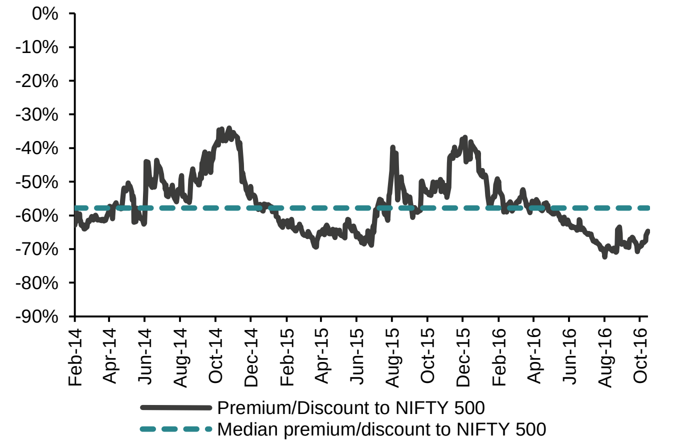
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



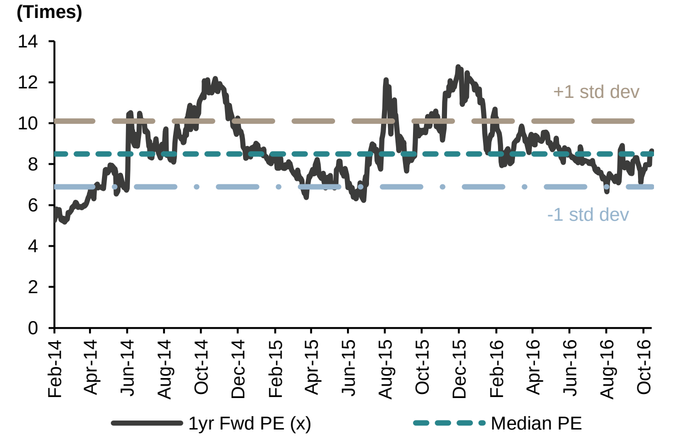
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty 500



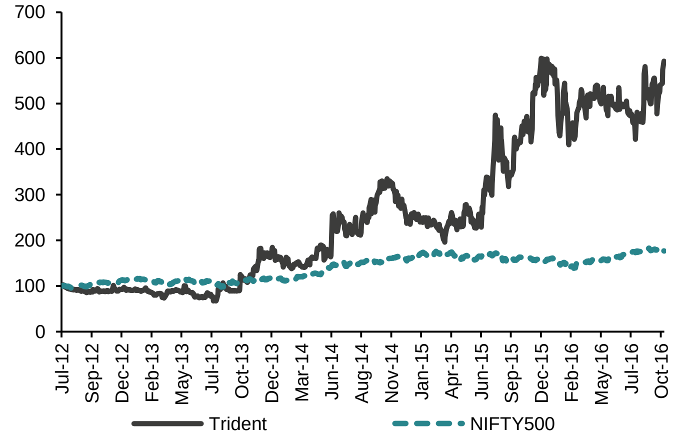
Source: NSE, CRISIL Research

Forward P/E chart

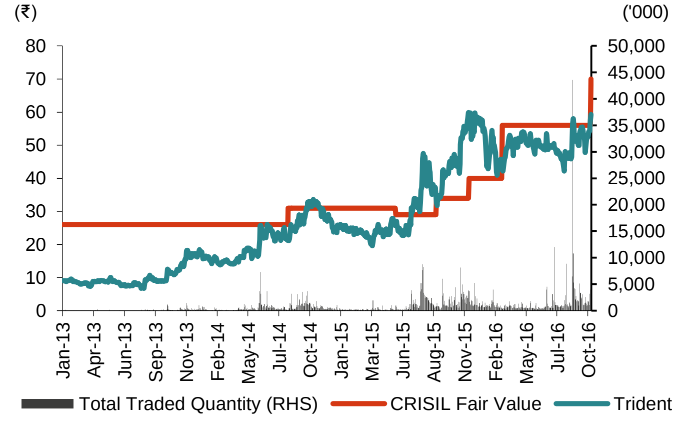


Source: NSE, CRISIL Research

Stock performance vs Nifty 500



Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

CRISIL IER reports released on Trident Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
24-Feb-14	Initiating coverage	3/5	₹26	5/5	₹14
02-June-14	Q4FY14 result update	3/5	₹26	5/5	₹17
21-Aug-14	Q1FY15 result update	3/5	₹31	5/5	₹24
20-Nov-14	Q2FY15 result update	3/5	₹31	3/5	₹29
10-Mar-15	Q3FY15 result update	3/5	₹31	5/5	₹23
12-June-15	Q4FY15 result update	3/5	₹29	5/5	₹23
10-Sep-15	Detailed report	3/5	₹34	3/5	₹36
08-Dec-15	Q2FY16 result update	3/5	₹40	1/5	₹56
25-Feb-16	Q3FY16 result update	3/5	₹56	5/5	₹43
22-Jun-16	Q4FY16 result update	3/5	₹56	3/5	₹53
18-Oct-16	Detailed report	3/5	₹70	4/5	₹60

Company Overview

Trident, the flagship company of the Trident Group, is a leading manufacturer of yarn, terry towel, bed linen and wheat straw-based paper. It started as a cotton yarn manufacturer in 1990. Originally it was named Abhishek Industries Ltd. It is promoted by Mr Rajinder Gupta. The company's first yarn plant in Sanghera, Punjab, which produces both cotton and blended yarn, was financed by a public issue in October 1992. With the amalgamation of Abhishek Spinfab Corporation Ltd in 1999 and Varinder Agro Chemicals Ltd in 2002, Trident diversified into terry towels and paper. The company has significantly invested in modernising assets and in forward/backward integration. In FY11, Trident had undertaken expansion projects in Barnala (Punjab) and Budhni (Madhya Pradesh) for cotton yarn manufacturing, majority through debt funding and the rest through equity/internal accruals. The company also expanded its presence in the bed linen segment which was commissioned in the third quarter of FY16. The company's manufacturing facilities are located in Barnala and Budhni. Currently, it has capacity to produce ~90,000 mt of terry towel, 43.2 mn meters of bed linen and ~175,000 tpa of paper. It has a strong client base in almost 100 countries including nine of the top 10 retailers in the US, six leading retailers in Europe and five of the top seven retailers in Australia and New Zealand.

Capacity as of FY16

Segment	Capacity
Yarn	5.55 lakh spindles and 5,504 rotors
Dyed yarn	6,825 tpa
Bed linen	500 looms/43.2 mn meters
Terry towel	688 looms/90,000 MT pa
Paper	1,75,000 tpa
Chemicals	1,00,000 tpa
Captive power	50 MW

Source: Company, CRISIL Research

Milestones

1999	Abhishek Spinfab Corporation Ltd, having large facilities of terry towel products, amalgamated with Trident
2002	Varinder Agro Chemicals Ltd, having facilities of producing 34,250 MT of paper and 1,00,000 MT of sulphuric acid amalgamated with Trident
2005	Commenced commercial production of open end yarn project with production capacity of 16 TPD
2009	Abhishek Industries Ltd launched branded copier paper - Spectra, My Choice
2010	Abhishek Industries commissions terry towel expansion project
2011	Name changed to Trident Ltd
2012	Amalgamation of Trident Infotech Ltd and Trident Agritech Ltd with Trident Ltd
2013	Acquired Trident Global Corp. Ltd
2015	Trident Corporation Ltd merged with Trident Ltd

Annexure: Financials

Income statement

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	**38,775**	**37,626**	**36,952**	**46,528**	**52,481**
EBITDA	**7,405**	**6,762**	**7,303**	**9,301**	**10,701**
EBITDA margin	**19.1%**	**18.0%**	**19.8%**	**20.0%**	**20.4%**
Depreciation	2,684	3,178	3,385	3,808	3,921
EBIT	**4,721**	**3,584**	**3,918**	**5,494**	**6,780**
Interest	2,103	2,060	1,364	1,217	1,013
Operating PBT	**2,617**	**1,524**	**2,554**	**4,276**	**5,767**
Other income	4	129	153	172	221
Exceptional inc/(exp)	(16)	26	63	-	-
PBT	**2,605**	**1,680**	**2,770**	**4,449**	**5,988**
Tax provision	665	501	486	1,112	1,796
Minority interest	-	-	-	-	-
PAT (Reported)	**1,940**	**1,179**	**2,285**	**3,336**	**4,192**
Less: Exceptionals	(16)	26	63	-	-
Adjusted PAT	**1,956**	**1,153**	**2,222**	**3,336**	**4,192**

Ratios

	FY14	FY15	FY16	FY17E	FY18E
Growth					
Operating income (%)	14.2	(3.0)	(1.8)	25.9	12.8
EBITDA (%)	30.5	(8.7)	8.0	27.4	15.0
Adj PAT (%)	329.8	NM	92.7	50.2	25.6
Adj EPS (%)	329.4	NM	86.8	45.4	25.6
Profitability					
EBITDA margin (%)	19.1	18.0	19.8	20.0	20.4
Adj PAT Margin (%)	5.0	3.1	6.0	7.2	8.0
RoE (%)	23.9	9.7	14.0	18.1	19.8
RoCE (%)	16.4	10.4	8.5	10.8	13.6
RoIC (%)	14.8	10.1	8.3	9.6	11.4
Valuations					
Price-earnings (x)	9.5	24.7	13.2	9.1	7.2
Price-book (x)	2.0	2.0	1.7	1.5	1.3
EV/EBITDA (x)	5.0	8.1	8.7	6.5	5.3
EV/Sales (x)	1.0	1.6	1.8	1.3	1.1
Dividend payout ratio (%)	4.8	24.4	19.9	21.6	24.9
Dividend yield (%)	0.5	1.0	1.5	2.4	3.4
B/S ratios					
Inventory days	63	78	96	86	79
Creditors days	30	39	38	38	38
Debtor days	27	23	21	20	20
Working capital days	82	99	129	109	106
Gross asset turnover (x)	1.1	0.9	0.7	0.8	0.8
Net asset turnover (x)	2.1	1.6	1.1	1.3	1.5
Sales/operating assets (x)	1.4	1.1	0.8	1.2	1.5
Current ratio (x)	3.0	2.9	3.2	3.3	3.3
Debt-equity (x)	2.0	1.8	2.0	1.6	1.2
Net debt/equity (x)	2.0	1.8	2.0	1.6	1.2
Interest coverage	2.2	1.7	2.9	4.5	6.7

Per share

	FY14	FY15	FY16	FY17E	FY18E
Adj EPS (₹)	6.3	2.4	4.5	6.5	8.2
CEPS	14.9	9.1	11.4	14.0	15.9
Book value	29.8	30.4	34.8	38.6	44.3
Dividend (₹)	0.3	0.6	0.9	1.4	2.0
Actual o/s shares (mn)	311.1	478.1	493.4	509.6	509.6

Balance Sheet

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Equity share capital	3,111	5,086	5,094	5,094	5,094
Reserves	6,167	9,467	12,095	14,564	17,498
Minorities	-	-	-	-	-
Net worth	**9,278**	**14,554**	**17,189**	**19,658**	**22,592**
Convertible debt	-	-	-	-	
Other debt	18,957	26,249	34,471	30,793	26,693
Total debt	**18,957**	**26,249**	**34,471**	**30,793**	**26,693**
Deferred tax liability (net)	1,082	1,242	1,727	1,727	1,727
Total liabilities	**29,318**	**42,044**	**53,387**	**52,178**	**51,012**
Assets					
Net fixed assets	17,912	28,609	37,908	35,837	33,246
Capital WIP	1,047	2,582	738	-	-
Total fixed assets	**18,960**	**31,191**	**38,645**	**35,837**	**33,246**
Investments	1,566	802	1,813	1,813	1,813
Current assets					
Inventory	6,429	7,508	9,092	10,835	11,215
Sundry debtors	2,804	2,256	1,990	2,509	2,802
Loans and advances	3,502	5,137	7,065	6,654	7,977
Cash & bank balance	116	124	131	209	386
Marketable securities	55	1	1	1	1
Total current assets	**12,905**	**15,026**	**18,279**	**20,207**	**22,381**
Total current liabilities	**4,242**	**5,230**	**5,789**	**6,119**	**6,868**
Net current assets	**8,663**	**9,795**	**12,490**	**14,088**	**15,513**
Intangibles/Misc. expenditure	**130**	**256**	**439**	**439**	**439**
Total assets	**29,318**	**42,044**	**53,387**	**52,178**	**51,012**

Cash flow

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Pre-tax profit	2,622	1,654	2,708	4,449	5,988
Total tax paid	(653)	(341)	(1)	(1,112)	(1,796)
Depreciation	2,684	3,178	3,385	3,808	3,921
Working capital changes	932	(1,178)	(2,687)	(1,521)	(1,247)
Net cash from operations	**5,585**	**3,313**	**3,404**	**5,623**	**6,865**
Cash from investments					
Capital expenditure	(1,642)	(15,536)	(11,021)	(1,000)	(1,330)
Investments and others	(832)	819	(1,011)	-	-
Net cash from investments	**(2,474)**	**(14,718)**	**(12,032)**	**(1,000)**	**(1,330)**
Cash from financing					
Equity raised/(repaid)	3	4,518	11	-	-
Debt raised/(repaid)	(3,441)	7,292	8,222	(3,679)	(4,100)
Dividend (incl. tax)	(116)	(341)	(546)	(867)	(1,257)
Others (incl extraordinaries)	374	(55)	948	-	0
Net cash from financing	**(3,180)**	**11,415**	**8,636**	**(4,546)**	**(5,357)**
Change in cash position	(70)	9	8	77	178
Closing cash	116	124	131	209	386

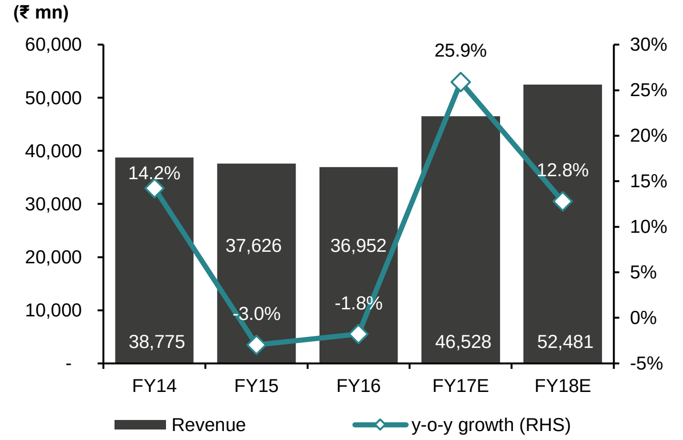
Quarterly financials

(₹ mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Sales	**8,744**	**9,610**	**8,978**	**9,622**	**11,550**
Change (q-o-q)	2%	-10%	-3%	15%	20%
EBITDA	**1,973**	**1,780**	**1,728**	**1,995**	**2,418**
Change (q-o-q)	2%	-10%	-3%	15%	21%
EBITDA margin	**23%**	**19%**	**19%**	**21%**	**21%**
PAT	622	509	610	586	785
Adj PAT	**622**	**509**	**610**	**586**	**785**
Change (q-o-q)	54%	-18%	20%	-4%	34%
Adj PAT margin	**7%**	**5%**	**7%**	**6%**	**7%**
Adj EPS	**1.3**	**1.0**	**1.2**	**1.2**	**1.6**

Source: CRISIL Research

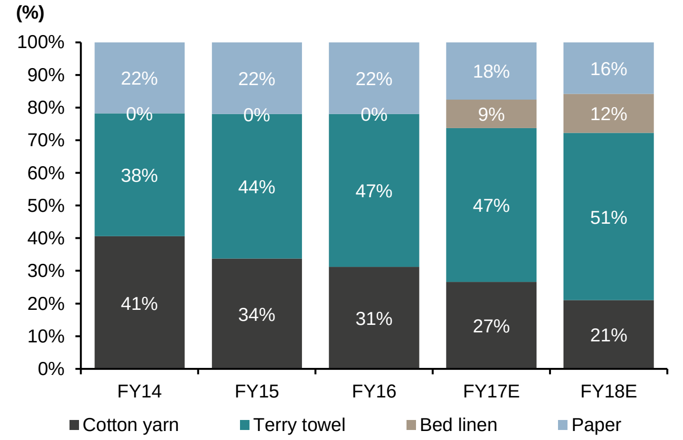
Focus Charts

Revenue growth to pick up in FY17



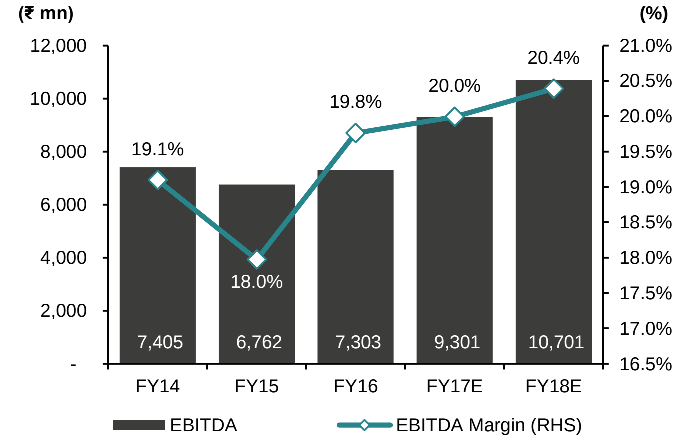
Source: Company, CRISIL Research

Share of terry towel and bed linen to grow



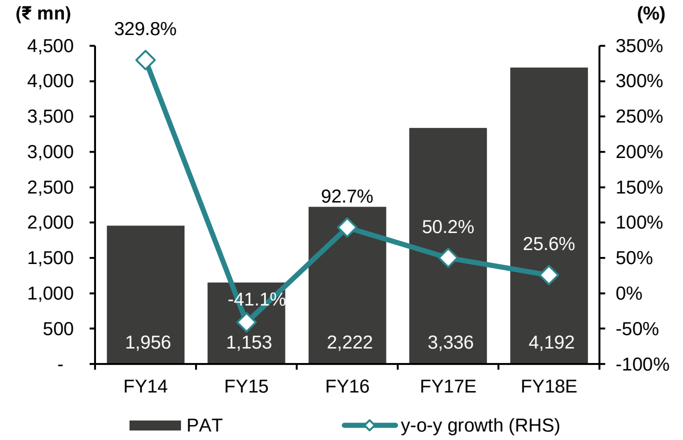
Source: Company, CRISIL Research

EBITDA margin to expand 60 bps over FY16-18E



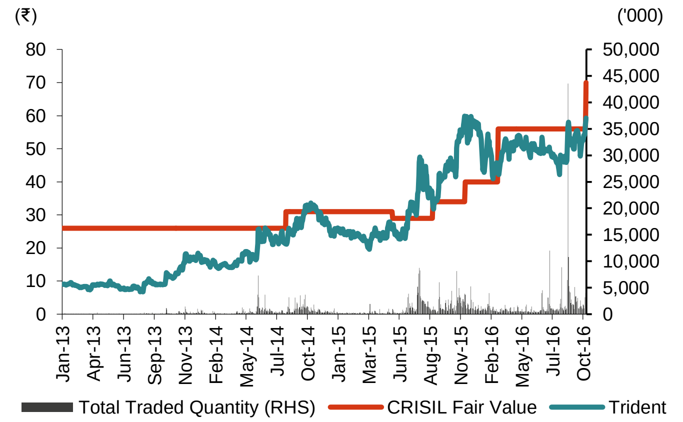
Source: Company, CRISIL Research

PAT expected to post strong growth



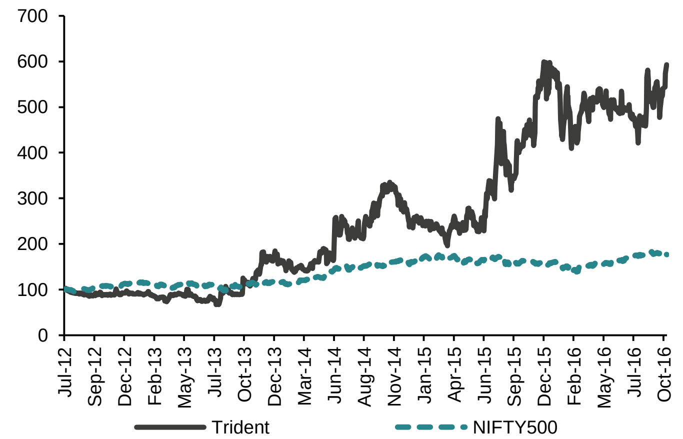
Source: Company, CRISIL Research

Fair value movement since initiation



Source: Company, CRISIL Research

Share price movement vs Nifty 500



-Indexed to 100

Source: Company, CRISIL Research

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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