Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 24, 2021

Management Meet Update

Key Financials - Consolidated

Y/e Mar	2018	2019	2020	2021
Sales (Rs. m)	46,403	52,653	47,240	45,353
EBITDA (Rs. m)	9,140	10,292	8,653	8,270
Margin (%)	*19.7*	*19.5*	*18.3*	*18.2*
PAT (Rs. m)	2,659	3,709	3,418	3,457
EPS (Rs.)	0.5	0.7	0.7	0.7
Gr. (%)	*-21.0*	*39.5*	*-8.0*	*1.5*
DPS (Rs.)	0.2	0.3	0.4	0.4
RoE (%)	*13.3*	*16.6*	*15.0*	*13.2*
RoCE (%)	*10.5*	*14.1*	*12.6*	*11.8*
EV/Sales (x)	1.3	1.1	0.9	1.9
EV/EBITDA (x)	7.0	5.7	4.9	10.4
PE (x)	11.1	9.6	6.2	23.0
P/BV (x)	1.1	1.2	0.7	2.2

Key Data	TRIE.BO | TRID IN
52-W High / Low	Rs. 23 / Rs. 6
Sensex / Nifty	55,959 / 16,625
Market Cap	Rs. 99.37bn/ $ 1,339.0 m
Shares Outstanding	5,096.0 m
3M Avg. Daily Value	Rs.486.2 m

Shareholding Pattern (%)

Promoter's	73.98
Foreign	1.60
Domestic Institution	0.01
Public & Others	23.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.8	43.9	198.4
Relative	11.0	32.0	153.7

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

Shweta Shekhawat
shwetashekhawat@plindia.com |

Trident (TRID IN)

Rating: Not Rated | CMP: Rs20

Ambitious vision statement

In our interaction with Trident, management cited 1) plans to garner Rs250bn in top-line with 12% PAT margin by 2025 (requires entry in new business line and no concrete plan has been finalized yet) 2) scope of improvement in capacity utilization (53% in FY21) for bath linen segment 3) target to scale paper business's topline to Rs9-10bn in next 2 years and 4) completion of phase-1 expansion of new spinning unit (capacity of 61,440 spindles entailing capex outlay of Rs3.4bn).

We believe Trident can capitalize on changing regional dynamics of China+1 and is well poised to meet rising home textile import demand from US & Europe (both the regions constitute ~60% of home textile imports). Strategic advantage of India being the largest raw cotton producer with abundant manpower and extension of RoSCTL benefits till March 2024 (provides stability and competitiveness of Indian products in foreign markets), also bodes well for Trident. Possible withdrawal of GSP+ status of Pakistan (review was due in 2022 but is pre-poned) can act as additional kicker and result in EU levying 20% import duty on Pakistan's exports, thereby providing a level playing field for Indian products. Over FY17-21, Trident's sales/PAT were flat (-2%/+1% respectively), while net debt reduced by Rs12.9bn over the same period. The stock trades at 13x FY23 BB consensus EPS. Not Rated.

Vision 2025 unveiled: Trident recently unveiled its "VISION 2025" statement under which 3 goals have been formulated viz; 1) Achieving sales of Rs250bn by 2025 with 12% bottom-line 2) Making Trident a National brand and 3) Maneuvering through digital journey (IOT, block-chain and digitalization).

Home textile business on a strong footing: We expect home textile business (comprising of bed and bath linen) to register strong performance in near to medium term given 1) strong pent-up demand 2) increased awareness on health/hygiene and WFH (bodes well for home décor products) and 3) extension of RoSCTL benefits till March 2024 (provides stability and competitiveness of Indian products in foreign markets).

Largest wheat straw based paper manufacturer: Trident is largest wheat straw based paper manufacturer with a capacity of 175,000 MT. It has 12% market share in Indian copier segment. In 2HFY22, paper volume as well as realization is expected to improve, supplemented by reopening of schools and educational institutes.

Capex plans impacted by COVID: Prior to the outbreak of pandemic, Trident had aggressive capex plans lined up for yarn manufacturing (to be undertaken in 3 phases) and paper upgradation. Total amount ear-marked for yarn/paper was Rs11.4bn/Rs2.2bn respectively. However, given current situation, Trident decided to put paper upgradation project on hold and has implemented only first phase of yarn project (cost of project is Rs3.4bn which is funded in D/E ratio of 3:1), for the time being.

Key highlights from our interaction

Ambitious expansion plans in pipeline

Established in 1990, Trident Ltd, is a vertically integrated business engaged in manufacturing of yarn, bed linen, bath linen, paper, chemicals and captive power. It has presence in 150+ countries (exports contributed 73% of sales in 1QFY22) with manufacturing facilities in Sanghera & Dhaula (Punjab) and Budhni (Madhya Pradesh).

Trident recently unveiled its "VISION 2025" statement under which 3 goals have been formulated: -

- Achieving sales of Rs250bn by 2025 with 12% bottom-line
- Making Trident a National brand
- Maneuvering through digital journey (IOT, block-chain and digitalization)

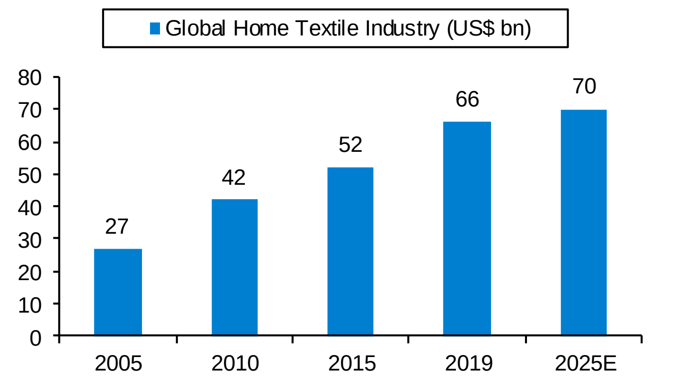
However, its top-line target is aspirational in nature and management intends to scale Rs70-75bn in next 2 years (if existing businesses operate at full utilization). For FY22, top-line of bed linen/bath linen/paper/yarn is expected to be in the range of Rs11-12bn/Rs25bn/Rs9bn/Rs9-10bn respectively with blended EBITDA margin in 20-24% range (more likely towards upper end of the range). In order to achieve ~5x revenue by 2025, additional capex is being envisaged in new line of business (plan is still at drawing stage).

India well positioned to capture share in global home textile market

The global home textile industry is expected to reach a size of US$70bn by 2025 (US$52bn in 2015). Demand is mainly driven from US and European region constituting ~60% of home textile imports. While China has highest market share of 37% (value of US$19bn) in home textile exports, India is distant 2nd with market share of 11% (value of US$6bn) followed by Turkey (8% share; value of US$4bn).

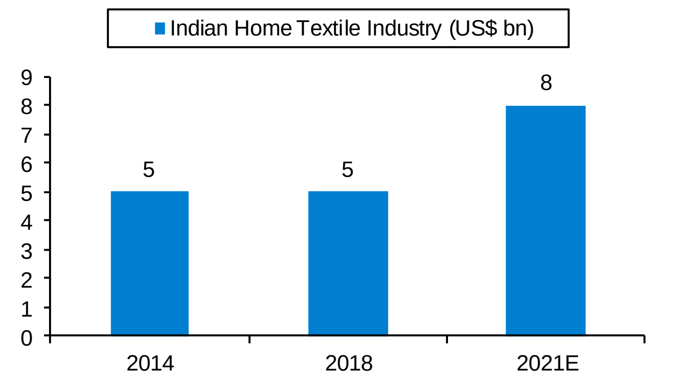
However, with changing regional dynamics of China+1 and superior quality; the balance of power is expected to shift towards India. Further, India is also the largest raw cotton producer having abundant manpower that offers an unparalleled advantage.

Exhibit 1: Global Home Textile Industry to reach US$70bn in 2025



Source: Company, PL

Exhibit 2: Indian Home Textile Industry to reach US$8bn in 2021



Source: Company, PL

India has the highest share in US imports for bed linen (62% in 1HCY21) and bath linen (44% in 1HCY21) segments. However, in European Union (EU) Pakistan enjoys a dominant 56% market share in bed linen and 33% in bath linen for 1HCY21. This is on the back of GSP+ status awarded to Pakistan, while India is just a GSP beneficiary. Pakistan's GSP status review was due in 2022 but is preponed by EU. If the status is withdrawn, EU would levy 20% import duty on Pakistan's exports, thereby providing a level playing field for Indian products.

Exhibit 3: Market share for US imports of cotton sheets

Particulars	2018	2019	2020	1HCY21
India	49%	50%	52%	62%
China	21%	19%	14%	11%
Pakistan	17%	19%	20%	18%
RoW	12%	12%	14%	9%

Source: Company, PL

Exhibit 4: Market share for US imports of terry towels

Particulars	2018	2019	2020	1HCY21
India	39%	39%	42%	44%
China	25%	24%	21%	20%
Pakistan	20%	21%	21%	21%
RoW	16%	16%	16%	15%

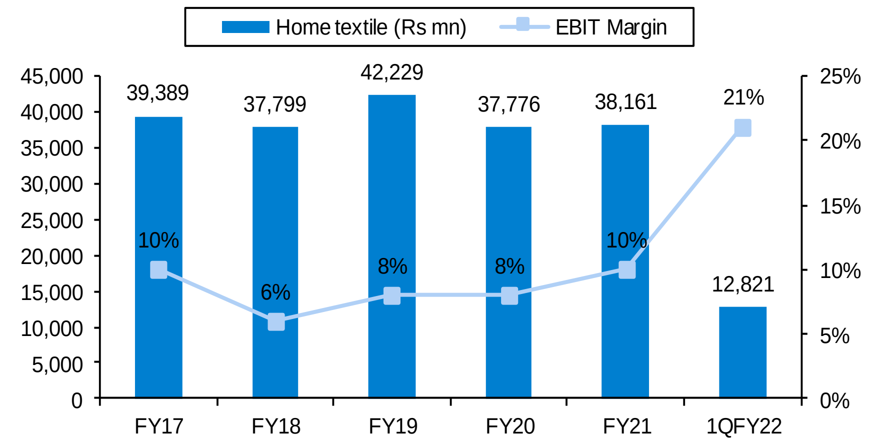
Source: Company, PL

Home textile business on a strong footing

The home textile industry which was disrupted due to pandemic is now witnessing a lot of pent up demand from upcoming festive season in foreign markets. Trident's home textile business comprises of bed linen and bath linen. The segment registered sales of Rs38.1bn in FY21 with an EBIT margin of 10%.

We expect home textile business to register strong performance in the near to medium term given 1) strong pent-up demand 2) increased awareness on health/hygiene and WFH (bodes well for home décor products) and 3) extension of RoSCTL benefits till March 2024 by Indian government providing stability and competitiveness of Indian products in foreign markets.

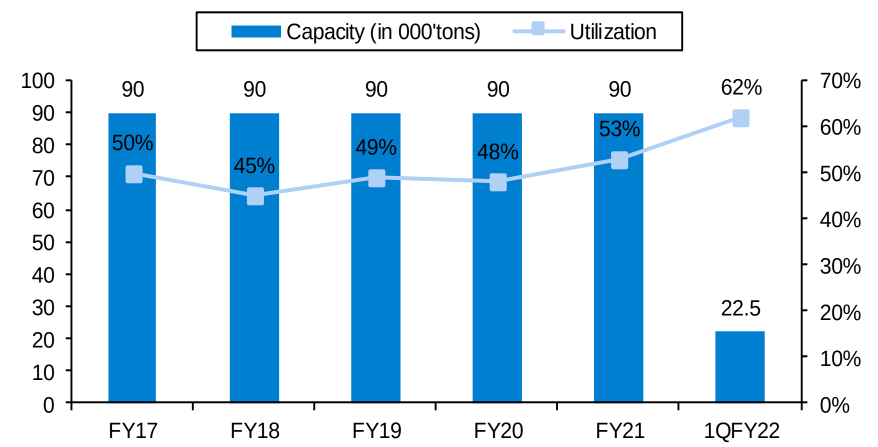
Exhibit 5: Revenue & EBIT margin trend of home textiles



Source: Company, PL

Bath linen to witness improvement in utilization: In bath linen (terry towel) segment, India's market share in US imports increased to 44% in 1HCY21 from 39% in 2018. Trident is one of the leading suppliers of bath linen to US market with manufacturing capacity of 90,000 tons per annum. The capacity utilization stood at 53% in FY21 (average of 49% over last 5 years), but increased 62% in 1QFY22. However, utilization is still not at an optimum level of 70-75% and is expected to improve going ahead.

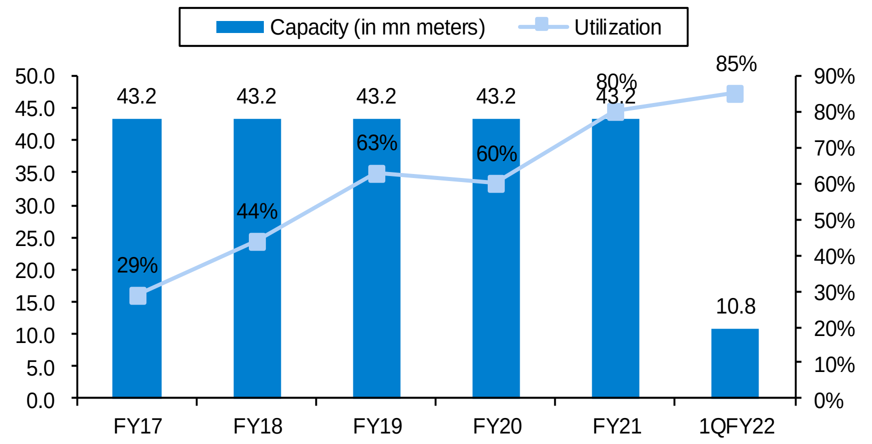
Exhibit 6: Bath linen's utilization increases to 62% in 1QFY22



Source: Company, PL

Bed linen's utilization reached 85% in 1QFY22: Trident's bed linen business has a wide portfolio with complete bedding solutions like duvets, comforters, pillow cases and sheets. It entered into this segment in 2016 when business was relatively nascent as compared to bath linen which was launched ~20 years ago, but now has mature/diverse clientele. The total installed capacity in bed linen segment stood at 43.2mn meters per annum in FY21 and utilization levels improved from 29% in FY17 to 80% in FY21 (further increased to 85% in 1QFY22).

Exhibit 7: Bed linen's utilization increases to 85% in 1QFY22



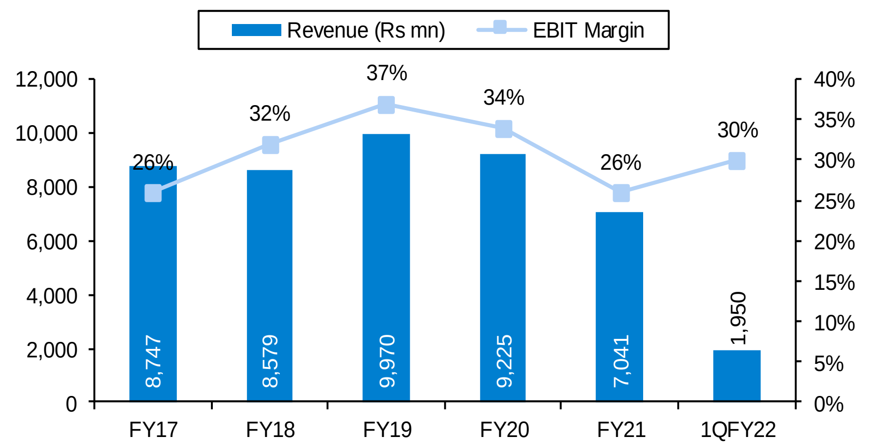
Source: Company, PL

Largest wheat straw based paper manufacturer

Trident is the largest wheat straw based paper manufacturer with a capacity of 175,000 MT. It has 12% market share in Indian copier segment. Trident leverages on its geographical presence in Punjab, highest wheat producing state, as it procures wheat straw (raw material) at attractive pricing (lowest RM to sales ratio amongst peers). The company has 30% market share in NCR and North India.

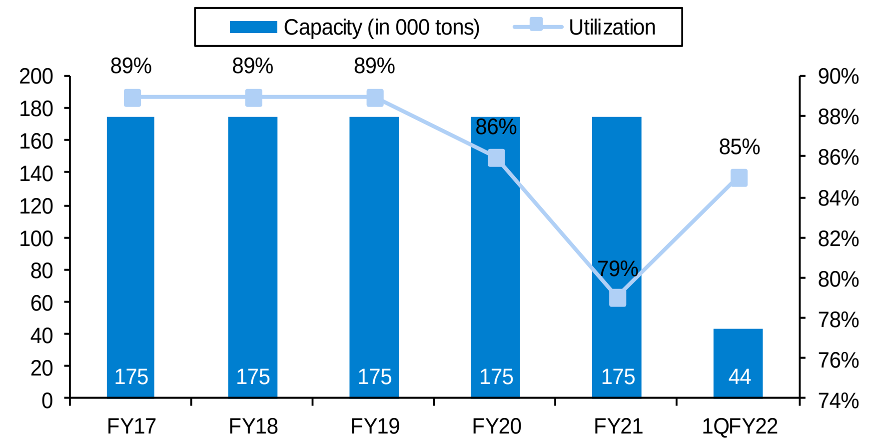
Trident's paper segment contributed 16% to the total revenue in FY21. Revenue fell 23.7% YoY to Rs7.0bn in FY21 with EBIT margin of 26% (34% in FY20) due to COVID-19 led disruption in education sector, which accounts for 60% of writing paper demand directly/indirectly. Further, realization suffered on account of growing imports of cheaper products from China. However, paper volume as well as realization is expected to improve in 2HFY22, supplemented by reopening of schools and educational institutes. In 1QFY22 utilization levels improved to 85% and for further optimization Trident will focus on de-bottlenecking and changing product mix. The business is expected to scale a top-line of ~Rs9-10bn in next 2 years.

Exhibit 8: Paper business revenue & EBIT trend



Source: Company, PL

Exhibit 9: Paper utilization stood at 85% in 1QFY22

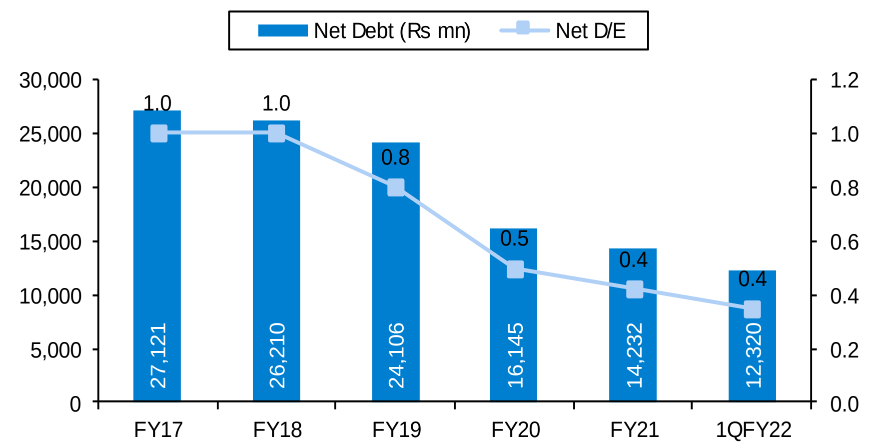


Source: Company, PL

BS strength improved with reduction in net debt to Rs12.3bn

Trident significantly reduced its net debt over the last 4 years (declined from Rs27.1bn in FY17 to Rs14.2bn in FY21) by pre-paying high-cost term/working capital loans through cash accruals. In fact, in FY21 itself, Trident repaid Rs10.3bn of debt, including pre-payment of term loans amounting to more than Rs6.5bn. The net D/E ratio stood at 0.35x with a Net Debt/EBITDA of 0.95x during FY21 after adjusting for RoSCTL amount of Rs579mn. Net debt has further declined to Rs12.3bn with a cash balance of Rs2.1bn as of 1QFY22.

Exhibit 10: Net debt reduced to Rs12.3bn in 1QFY22



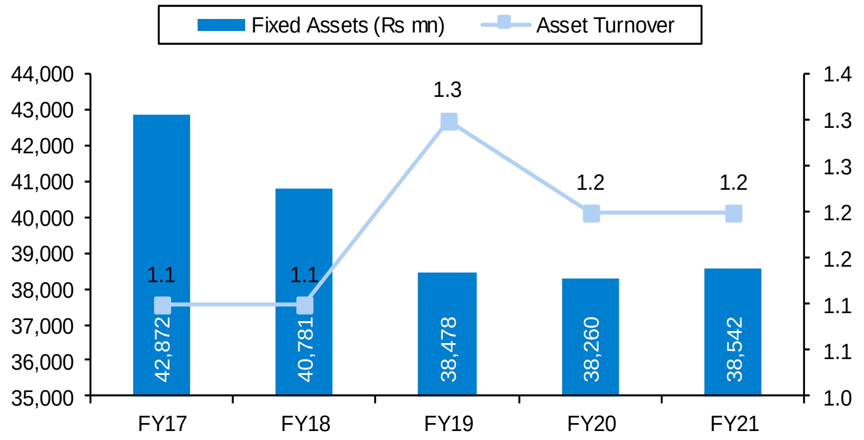
Source: Company, PL

Capex plans impacted by COVID

Prior to the outbreak of pandemic, Trident had aggressive capex plans lined up for yarn manufacturing (to be undertaken in 3 phases) and paper upgradation. Total amount ear-marked for yarn/paper was Rs11.4bn/Rs2.2bn respectively. However, given current situation, Trident decided to put paper upgradation project on hold and has implemented only single phase of yarn project. Commercial production of 1st phase with 61,440 spindles and 480 rotors began on 27th July 2021. The cost of project is Rs3.4bn (funded in D/E of 3:1) and yarn produced would be sold in the market as well as for captive consumption.

Going ahead, expansion in yarn business (implementation of next 2 phases) is the priority followed by bed linen segment. No further expansion is lined up in bath linen segment, as there is scope to improve utilization levels. Trident will look for brownfield expansion (12 months are required to reach commercial stage from planning stage against 18 months for greenfield expansion) to expand current capacities. The next 2 phases of yarn expansion are yet to be finalized, but most likely will be funded in D/E of 3:1. The fixed asset turnover ratio is likely to remain in the range of 1-1.2x.

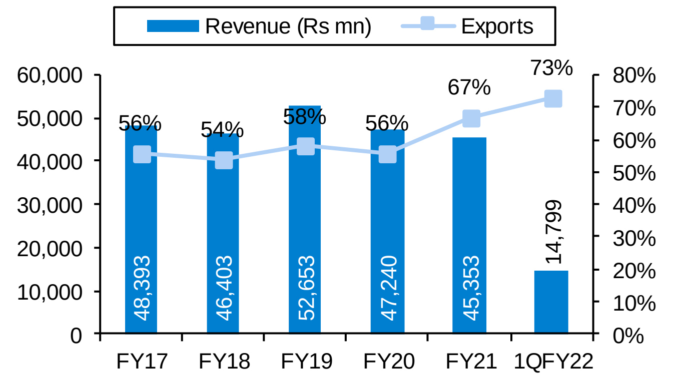
Exhibit 11: Fixed asset turnover is at 1.2x in FY21



Source: Company, PL

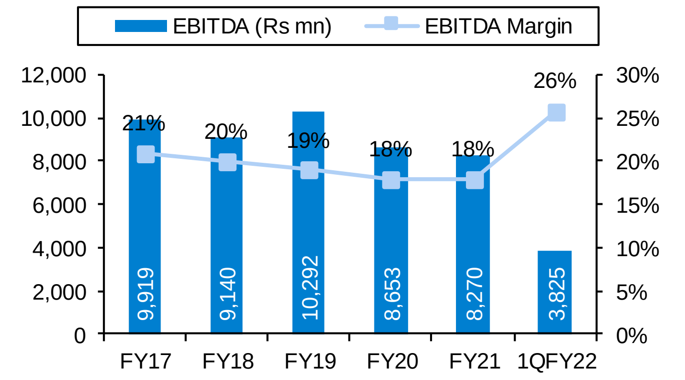
Story in Charts

Exhibit 12: Exports formed 73% of sales in 1QFY22



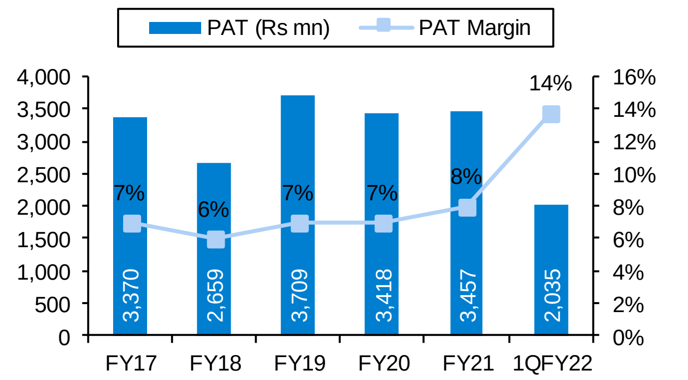
Source: Company, PL

Exhibit 13: EBITDA margin rises to 26% in 1QFY22



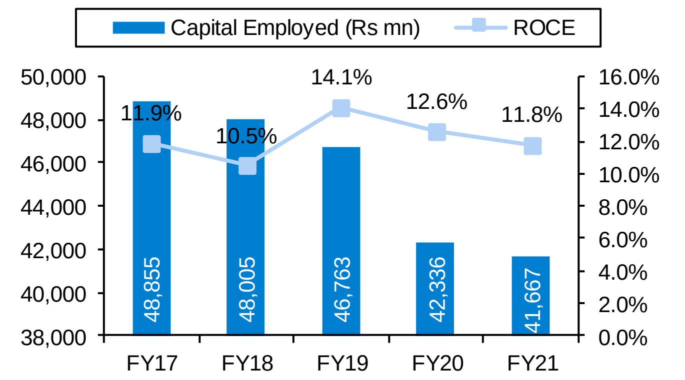
Source: Company, PL

Exhibit 14: Annual PAT margin hovers in the range of ~6-8%



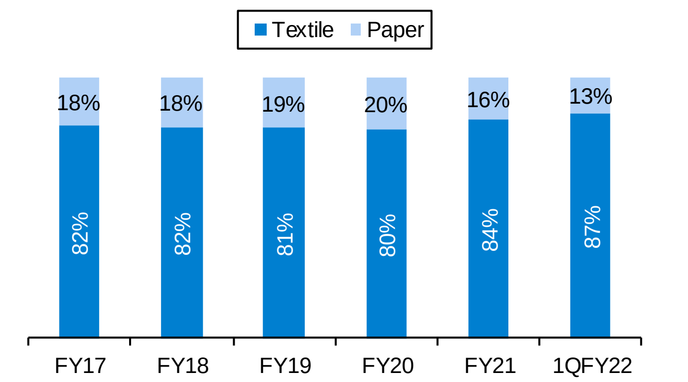
Source: Company, PL

Exhibit 15: Capital Employed & RoCE trend over 5 years



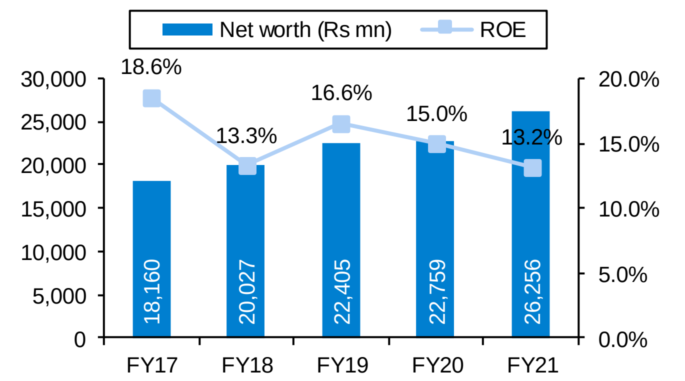
Source: Company, PL

Exhibit 16: Revenue mix trend of Trident



Source: Company, PL

Exhibit 17: RoE trend over last 5 years



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	214	199
3	Indian Railway Catering and Tourism Corporation	Hold	2,654	2,661
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	111	102
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	147	121
9	V.I.P. Industries	BUY	457	386
10	Zee Entertainment Enterprises	BUY	253	197

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Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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