

Dear Member,

We are pleased to inform you that Value Pick of April 2019 is released by our team on 13 Sept 2019. Value Pick stock of the month is Trident Ltd (**BSE Code: 521064, NSE Code: TRIDENT**). Trident Ltd has a market capital of Rs. 3093 crores and operates in textile and paper Industry.

1. Company Background:

Trident Limited, a part of US\$ 1 billion Trident Group is headquartered in Ludhiana, Punjab. Established in the year 1990, the company has evolved as a global textile player under the visionary leadership of its founder chairman Mr Rajinder Gupta, a first generation entrepreneur. Trident Limited is a leading manufacturer of Yarn, Bath Linen, Bed Linen, Wheat Straw-based Paper, Chemicals and Captive Power. The company has state-of-the-art manufacturing facilities in Barnala (Punjab) and Budni (Madhya Pradesh). In the year 2016, Trident forayed into bed linen by commissioning a facility in Budni. The company has a strong clientele in 100 countries across the globe.

The company broadly operates in 4 business segments:

1. Yarn
2. Home Textiles
3. Paper
4. Chemical & Power

1. Yarn - The company possesses the largest spinning installation at a single campus in India. It is a prominent manufacturer of premium quality yarn with a versatile range of products to offer such as cotton, compact, blended and melange yarn among others. The manufacturing unit is equipped with latest technology such as Blowroom from Trutzchler, Ring Frame from Zinser and Murata, Compact attachments of Suessen, Testing technologies like UT 5 etc.

2. Home Textiles - Trident is one of the largest vertically integrated companies in the home textile industry across the globe. The segment's revenue is driven by two business divisions – Bath and Bed Linen. Trident is the largest player in terry towel capacity. It is one of the leading suppliers of bath linen in the US market. It has manufacturing units at Barnala, Punjab and Budni, Madhya Pradesh, with total capacity of 90,000 MT per annum for bath linen. This division is operating at an average capacity utilisation of around 49%. Under bed linen, a wide product portfolio and unmatched design capabilities make the company a complete bedding solution provider. This division is operating at an average capacity utilisation of around 63%. Dedicated to bed linen's production processes, there is one unit with capacity of 43.9 million meters per annum in Budni. The company achieved 51% of its revenue from home textile segment in FY 2018-19.

3. Paper Business - Trident is the world's largest manufacturer of wheat straw based paper. The company utilises the latest technology and world-class machinery in the production process to minimise wastes. The company uses wheat straw, an eco-friendly raw material, which is the residue left after harvesting wheat. This facilitates easy procurement at attractive pricing since Punjab is the highest wheat producing state in the country. The company has a production capacity of 175,000 TPA. Trident has consistently increased its production of copier paper over the years. During the FY 2018-19, Trident's Paper segment accounted 19% of company's total revenue.

4. Chemical & Power - Trident is one of the largest commercial and battery grade sulphuric acid manufacturer in North India, with an installed capacity of 100,000 TPA. It caters to the diverse battery requirements and finds usage in the production of zinc sulphate, alum, detergent and dye and fertilizers. To keep up with the rising consumption and demands, Trident has deployed three mega turbines and two power boilers for captive power generation of up to 50 Megawatts. The multi-fuel AFBC boilers are equipped with auto-mated DCS operations and intelligent load management systems. The plant is fed through agro-wastes (rice husk), ETP sludge, methane (from ETP), and pet as well as imported coke. Trident's energy efficient model sustains its Punjab facilities entirely through the output of this plant.

Trident's promoters hold 71% stake in the company through various holding entities which is significantly high, and the rest is held by institutional players, bodies corporate, and public. In FY 2019, the company registered revenue of Rs. 5279 crores and profit after tax of Rs 372 crore as against revenue of Rs 4567 crore and PAT of Rs 252 crore in FY 2018.

2. Recent Developments:

i) De-bottlenecking & Modernization of paper units at Dhaula Plant – Aug 2019

The board of Directors of the company has recently approved the De-bottlenecking & Modernization of its existing paper units at Dhaula Plant, Punjab.

The existing capacity of the plant is 1,75,000 MTPA with capacity utilization of 89%. The proposed capacity addition is of 20,000 MTPA. This requires investment of INR 222 crores and will be funded through internal accruals (INR 74 crores) and external borrowings (INR 148 crores).

The proposed project is expected to begin commercial operations from March 2021 and will help the company to strengthen its existing paper units and further increase its market presence.

ii) Trident makes online debut through Amazon Global Selling – July 2019

Trident has recently initiated online selling of its products on Amazon global marketplace Amazon.com, bringing its wide range of offerings to consumers worldwide as a part of Amazon's Global Selling Program.

By partnering with Amazon, Trident Group can now sell to millions of potential global customers who value not only the high-quality products but are also conscious of the environmental impact of their consumption

iii) Trident announces expansion of Spinning capacity – May 2019

Trident Group has announced expansion of its spinning capacity. The company will be investing Rs. 1140 crores towards installation of 1,62,432 spindles & 3,600 rotors including other balancing equipment to manufacture approximately 48482 TPA of 100% cotton yarn at its existing plant in Budni, Madhya Pradesh.

Trident's existing capacity is 5,43,744 spindles and 6,464 Rotors. The current capacity utilisation is 99%. The proposed project is expected to begin commercial production by January 2021. The new project will help to strengthen the existing home textile business of Trident Group and shall further increase the company's market presence.

iv) Trident gets Patent from US for Environment friendly Fabric – May 2019

Trident has been granted a patent for "Environment Friendly Fabric and its method of manufacturing" by United States Patent & Trademark Office. This patent enables Trident to manufacture fabric for bed and bath products without using chemically harmful fibers besides allowing the fabric to be absorbent, easy to dry and highly breathable.

This would bring new opportunities and drive the revenue for bath and bed products which are the highest contributors to the company's total revenue.

3. Financial Performance:

Trident net profit rises 107.90% in the June 2019 quarter

Net profit of Trident rose 107.90% to Rs 122.43 crore in the quarter ended June 2019 as against Rs 58.89 crore during the previous quarter ended June 2018. Sales rose 15.46% to Rs 1312.15 crore in the quarter ended June 2019 as against Rs 1136.49 crore during the previous quarter ended June 2018.

Trident net profit rises 80.06% in the March 2019 quarter

Net profit of Trident rose 80.06% to Rs 92.57 crore in the quarter ended March 2019 as against Rs 51.41 crore during the previous quarter ended March 2018. Sales rose 18.54% to Rs 1405.42 crore in the quarter ended March 2019 as against Rs 1185.56 crore during the previous quarter ended March 2018.

For the full year, net profit rose 39.52% to Rs 370.92 crore in the year ended March 2019 as against Rs 265.86 crore during the previous year ended March 2018. Sales rose 14.31% to Rs 5219.52 crore in the year ended March 2019 as against Rs 4565.96 crore during the previous year ended March 2018.

4. Investment Rationale:

i) The domestic textile and apparel industry in India has shown robust growth over last decade and is expected to reach a market size of USD 250 billion by 2023 from USD 150 billion in 2016. Textile and apparel exports from India are expected to increase to USD 82 billion by 2021 from USD 36.66 billion in 2016. Key drivers to this growth would be increasing investments along with policy support by the government, rise in disposable income, better penetration in smaller cities and rapid urbanization. The domestic market is also expected to grow at 10% per annum or higher.

ii) Home Textile represents nearly one third of the global textiles & apparel industry. Global Textile and Apparel Trade is estimated to grow at a CAGR of approximately 4.5–5.5% and is likely to touch approximately USD 1 trillion by 2023. The Global Home Textile Trade forms a substantial part of the global textile and apparel trade. (Source – IBEF, Ministry of Textile annual report)

iii) In past 5 years, Indian companies have gained traction in major US and Europe markets whereas market share of other suppliers from China and South Asia has declined. Indian textile players benefit from a cost-effective model of manufacturing. As compared to key competing countries, India has one of the lowest costs when it comes to labour, power and water across the globe. Moreover, India is largest producer of cotton in the world, the largest net exporter of cotton and cotton yarn, and also have world's largest area under cotton cultivation. Ready availability of cotton is backed by quick raw material supply and lower prices, which provides the domestic textile players the much needed infrastructure for manufacturing. The Indian Government too favours textile production by introducing reforms that would further cut down the costs. Thus, Indian manufacturers get a competitive edge in terms of cost over other countries producing textiles.

iv) Trident has a presence across the textile manufacturing value from cotton to home textiles. This allows the company to bring synergy in the operation helping it to strengthen the value chain addition and mitigate risks associate with some of the raw materials prices fluctuation and thus protect margins in unfavourable cotton market scenarios. It also

helps to provide a strong control over the production value chain in the manufacturing process. Trident consumes nearly 35% of the yarn internally.

v) In paper segment, increasing use of printers, growing demand for packaging paper, specialized food packaging and use of paper bags will continue to support the growth. Trident has 5 well established brands which drives around half of the segmental revenue. It enjoys a positive word of mouth publicity and is among the top-four copier paper suppliers in terms of market share. Moreover, company's paper segment diversifies its overall earnings base.

vi) Considering the high capacity utilisation levels in yarn business, a sizeable portion of which is consumed in-house by the home textiles business, the company's management decided to expand yarn capacity. The management also plans to increase its paper capacity by nearly 10% through debottlenecking at a modest cost. The company is undertaking yarn capacity expansion project at a total cost of INR 1140 crores (enhancing capacities by 48,482 TPA) and paper debottlenecking cum expansion project (increasing capacity by 20,000 TPA) at a cost of INR 200 crores. We believe capex execution and stabilisation risk will remain low considering the stable growth outlook in both the segments and past track record and experience of the company. Additional capacities of yarn as well as paper is expected to become operational by second half of FY21. Yarn project will be benefited from Madhya Pradesh state interest subsidy scheme and it will further enhance backward integration support to the home textile segment.

vii) With increasing preference for branded and premium products, the home textile companies are aggressively branding their products. Players with differentiated strategies are expected to gain market share rapidly. Trident is an established player in the segment and launched series of unique and innovative products to meet the demand. With omni-channel capabilities, the company has expanded its reach across e-commerce platforms. With a presence on all major e-commerce platforms, Trident is aiming at an increase in the revenue contribution from the digital platforms.

viii) As on June 2019, promoter's shareholding in the company is at 71.07% with no shares being pledged. Institution shareholding in the company is low at 2.31%. The company has paid uninterrupted dividend from 2014, paid total dividend of Rs. 3 for FY18-19 (increase of 100% compared to total dividend of Rs. 1.50 paid for FY17-18). The company has also paid interim dividend of INR 0.90 in first quarter of current financial year against dividend of INR 0.60 paid in first quarter of last FY. Dividend yield at current price is very attractive at 4.9%. During last 3 years, the company has registered sales and profit CAGR of 12.5% and 14.6% respectively with ROE of 11.9%.

ix) As per our estimates, Trident can deliver PAT of 474 crores for FY 2021-22 with estimated EPS of Rs. 9.30. At current price of Rs. 60.70, stock is available at price to earnings multiple of 6.5x based on estimated earnings which makes it attractively valued at current levels. Assigning fair P/E ratio of 10 on estimated EPS for FY21-22 considering

stable growth outlook, attractive dividend yield and expected increase in operating margins with improvement in utilization rates of home textiles business, we arrive at price target of Rs. 93.

5. Key Concerns & Risks:

i) Cotton and wheat husk are the major raw materials used by the Company for textile and paper production respectively. Volatility in prices impacts the overall cost of production, and thus, the profitability.

ii) As the company deals in the International market, it is exposed to currency volatility, which impacts the overall revenue of the company.

iii) The Government of India has come up with various incentives such as rebate on state levies, duty drawback, and ATUFS, among others. The company has leveraged on these initiatives to stay ahead in the market. Implementation of any policy by Government which is not in favour can hampers the operations of the company.

6. Saral Gyan Recommendation:

Trident has a large scale of manufacturing operations and a diversified product mix comprising yarn, terry towels, bed linen, paper and chemicals. The company has a strong clientele list comprising global retail and institutional brands in about 100 countries. It caters to the top 9 of the top 10 retailers in the US, 6 leading retailers in Europe and 5 of the top 7 retailers in Australia and New Zealand. Over the years, Trident has made steady inroads into Japan, the Middle East and South Africa. The company's large vertically-integrated home textile facilities (cotton-to-bed and bath linen) provide it with the benefits of low cost, fast order execution and high-quality controls.

Trident's revenues are expected to register a CAGR of ~10%, supported by increased contributions from terry towels and bed linen segments of its home textiles business over next 2 years. This, along with healthy operating margins of ~18% should result in gradual improvement in return on capital employed to ~15%, from 13.2% in FY 2018-19, despite sizeable capex being undertaken in the yarn segment. Considering expected increase in revenue, attractive valuation with high dividend yield and healthy operating margins, Saral Gyan team recommends **"Buy"** on **Trident Ltd** at current market price of Rs. 60.70 for target of 93 over a period of 12 to 24 months.

Buying Strategy:

- 75% at current market price of 60.70
- 25% at price range of 47 - 52 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

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- a. Buy recommendation: This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait