Trident Limited

Q3 & 9M FY14 Earnings Conference Call

February 13, 2014 at 4:00 p.m. IST

Moderator: Ladies and gentlemen, good day and welcome to the Trident Limited's conference call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you, Mr. Solanki.

Nishid Solanki: Good afternoon everyone and welcome to the Q3 & 9M FY14 earnings conference call of Trident Limited. Today we have with us, the senior members of the management including Mr. Arun Goyal – Chief Financial Officer; Mr. Pawan Jain – Company Secretary and Mr. Vaibhav Goel – Manager, Investor Relations.

We will commence the call with opening remarks from the management following which we will have the floor open for interactive question and answer session. Before we begin, I would like to caution that some of the statements made or discussed on the call today may be forward-looking in nature and a note to that effect has been included in the conference call invite sent to you earlier. The company does not undertake to update them publicly.

I would now invite Mr. Pawan Jain to make his opening remarks. Thank you and over to you, Mr. Jain.

Pawan Jain: Thank you Nishid. Good afternoon and a warm welcome to everyone on the Q3 and 9M FY14 earnings conference call of Trident Limited. I will commence by giving you a brief description about the company and the corporate developments and then walk you through the operational performance across business segments following which Mr. Arun Goyal will share the financial highlights for the quarter and nine months ended December 31, 2013.

Trident Limited is the flagship company of Trident Group with presence across Terry Towel, Yarn, Paper, Chemicals and Captive Power. Currently we are among the leading towel manufacturers in the world and one of the largest exporters from India. Our global clientele includes Ralph Lauren, JC Penney, IKEA, Target and Wal-Mart, to name a few. The company has leadership position in the yarn segment given its wide product portfolio and capability to produce all possible blends. With an installed capacity of 3.66 lac spindles and about 3,600 rotors, Trident produces about 85,000 tons per annum of yarn. The company has a total of 388 looms manufacturing about 14.5 million pieces of towels per month.

In the paper segment, we are the largest wheat straw based paper manufacturers in the world with a capacity of 1,75,000 TPA sold over 35 countries across the world. In addition we have a capacity of 1,00,000 TPA of sulphuric acid and we also have a 50 MW captive power plant that helps us to optimize cost and aid sustained growth.

As you might be aware, the board of directors of Trident Limited and Trident Corporation Limited in their respective meetings held on October 9, 2013 had approved the proposal to merge Trident Corporation Limited into Trident Limited. I am happy to state that the equity shareholders, secured creditors and un-secured creditors of Trident Limited have unanimously approved the scheme of amalgamation of Trident Corporation Limited with Trident Limited in their separate court convened meetings held on January 25, 2014. Further the public shareholders have also approved the scheme through postal ballet and e-voting with 99.91% majority. The scheme is now subject to approval of the Honorable Punjab and Haryana High Court at Chandigarh.

The merger will further strengthen our position as one of the leading integrated players in the textile sector globally offering best-in-class quality to diverse clientele.

I will now walk through the operational performance for Q3 FY14.

We have seen a surge in the demand for domestic textiles in the export market given the competitiveness of Indian mills which has significantly improved over the past two years as compared to Pakistan, Bangladesh and other South American countries. Furthermore, India has become operationally strong in terms of machine and labor. Skewed Chinese policy of buying cotton at higher prices to support local farmers due to high cost of cotton in China is helping the Indian spinners. All these factors together with Rupee depreciation vis-à-vis appreciation of Chinese Yuan have placed India on a strong footage and Trident is poised to cash in on this demand. While we witnessed strong demand for yarn in H1, the growth in Q3 was moderate due to changing industry dynamics. In addition, usage of new high priced cotton stock marginally impacted our margins.

Let me now give you a business wise perspective.

In our Yarn business, we produced 22,285 MT of yarn in Q3 FY14 compared to 21,069 MT in the corresponding quarter of last year. Our total yarn sales stood at 21,606 MT. While we witnessed a marginal drop in the sales volume, realizations improved by 15.2% from Rs. 1.96 lac / MT in Q3 FY13 to Rs. 2.26 lac / MT in Q3 FY14 given our focus on increasing the proportion of valued added product portfolio in our yarn product basket.

Our Terry Towel business registered healthy growth during the quarter driven by improvement in sales volumes and realizations. India's competitiveness vis-à-vis China and other Asian countries has helped gain market share across key geographies including US and Europe. Besides, our sustained efforts towards market research and segmentation have enabled us to launch new products like Trident Everyday, Trident Home Essentials and Trident Classic in domestic market. During the quarter, we manufactured 7,510 MT and sold 8,065 MT. Realizations, during the quarter, improved from Rs. 4.07 lac / MT to Rs. 5.10 lac / MT. Further focus is on quality and on aggressive branding strategy to percolate home textile products in premier customer segment. We are also laying emphasize on spreading customers geographically to hedge against slowdown in other nations. Net-net the order book visibility in this segment is healthy and we anticipate the growth momentum to continue going forward.

Coming to our Paper segment, Trident is the largest agro-residue based paper manufacturers in the world with exports to 35 countries. During the quarter, our total production and sales of paper stood at 39,031 MT and 39,397 MT, respectively. Out of this, production of the copier paper stood at 19,831 MT. Average paper realizations improved by 18% from Rs. 46,200 per metric ton in Q3 FY13 to Rs. 54,700 / MT in the current quarter given our focus on enhancing product mix towards copier segment and various branding initiatives. Further, we are laying emphasis on introducing new products in the copier segment while continuing to expand its market and distribution range. Besides, we are also increasing our penetration in the domestic markets to continue our growth momentum in the paper segment.

With this, I would like to hand over the call to Mr. Arun Goyal to share the financial highlights for the quarter and nine months ended December 31st, 2013.

Arun Goyal: Thank you Pawan. Good afternoon everyone. I will take you through the financial highlights for this quarter as well as for nine months of this year.

During the quarter, our total revenues grew by 23.2% to Rs. 1,021 crore. Our EBITDA expanded to Rs. 184 crore which is up by 26% year-on-year translating to EBITDA margins of 18% driven by our focus on the cost rationalization as well as increased contribution from high margin value addition products. In this quarter, we repaid approximately Rs. 106 crore of loan resulting in an 8.8% decline in the overall financial cost. Profit after tax jumped to 2.6 times to Rs. 51 crore from Rs. 14 crore in the corresponding quarter translating to an EPS of 1.64 per share for the quarter. Cash profit stood at Rs. 119 crore vis-à-vis Rs. 81 crore in Q3 FY13.

For 9M FY14, revenues were higher by 17.6% at Rs. 2894 crore. EBITDA margin enhanced by 420 bps to 20.4%. Profit After Tax improved by 9 times to Rs. 168 crore from Rs. 17 crore in the corresponding period of last year. This profit has given us an EPS of Rs. 5.40 per share for 9M FY14.

Let me also give you a brief summary of our segmental performance.

In the Yarn segment during the quarter, revenues expanded by 13.4% to Rs. 490 crore, while the PBIT stood at Rs. 50 crore, up 17.4%. Margins enhanced to 10.2% given the management focus on valued added products and cost optimization. For nine months, revenues and PBIT stood at Rs. 1,452 crore and Rs. 200 crore, up 18.7% and 122%, respectively.

Revenues from the Terry Towel segment, during the quarter, improved by 34.1% to Rs. 412 crore. PBIT grew by 91% to Rs. 43 crore. This was on account of better utilization of capacities, improved product mix towards the value added products as well as some impact of depreciating rupee. For the nine month period, the revenue and PBIT of the Terry Towel division were higher by 14.8% and 73% at Rs. 1,090 crore and Rs. 118 crore, respectively.

In our Paper and Chemical segment, we reported total revenue of Rs. 215 crore which has grown by 21%. PBIT improved by 35% to Rs. 34 crore. PBIT margins stood strong at 15.7% vis-à-vis 14.1% in the same period last year which are again owing to our focus on high margin copier segment with the enhanced marketing and distribution reach. For the nine months period, the revenues and PBIT were higher by 16.4% and 29% at Rs. 614 crore and Rs. 100 crore respectively.

The Company's total debt as on 31st December 2013 stood at Rs. 1,754 crore while the total cash and cash equivalent stood at Rs. 69 crore. The total debt-to-equity stood at 1.9x while the long term debt-to-equity stood at 1.1x.

Overall, our performance has been satisfactory and the outlook looks robust given the strong demand coupled with the government decision to make the export of cotton yarn eligible for a new benefit under the incremental export and centralization scheme for this year. The outlook for our Terry Towel business looks strong given the pipeline of our new product launches in the domestic market together with our focus on enhancing brand awareness and distribution. Paper segment will continue to complement growth owing to our branded initiative and focus on the copier segment.

That concludes my financial review and outlook. We would now be happy to take any questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Why has the margin in yarn and towels business come down compared to previous quarter?

Arun Goyal: In the yarn division, the PBIT decreased by Rs. 23 crore vis-à-vis Q2 FY14 to Rs. 50 crore. Here, I would like to mention that in the current quarter, the board, based on the recommendation of our auditors, have not accounted for interest as well as sales tax refund that our MP units are eligible for. For interest, we had taken a call about 1.5 years back that it should be accounted on receipt basis. For sales tax refund, our board has taken a call to reverse the benefits availed earlier on accrual basis, although we are positive that we will receive the refund. So for MP, we have taken a call for Rs. 14 crore for the period.

Similarly, our board has taken a call for Rs. 4 crore on account of same type of refunds from the Punjab Government. When we pay purchase tax on cotton, we are entitled for refund on the basis of inter-unit sales, out of state sales or for exports; but the Punjab Government is refunding only 50% of this amount. So, although quarterly impact is less than Rs. 1 crore, we have taken a hit of close to Rs. 4 crore. So if we add both these things, PBIT this quarter would be close to Rs. 68 crore.

Aman Sonthalia: So you do not expect that to happen in the next quarter?

Arun Goyal: It will be on receipt basis. So if any receipt comes in the next quarter than that will be added back to the profits in the same quarter.

Aman Sonthalia: Why has the profit margin come down in the Towels division as compared to the last quarter?

Arun Goyal: In towels, we are overbooked for this quarter. For timely shipment in the towel segment we paid Rs. 5 to 6 crore of air freight. In addition, there was increased spend towards branding because we are coming up with huge capacities in towel which will take us to world's largest integrated facilities. The management is considering creating a brand in the domestic market. So, over the last 4-5 months, our product related ads have increased in the newspapers. This has marginally impacted margins.

Aman Sonthalia: How much is the ad cost?

Arun Goyal: Total advertisement cost per quarter is around to Rs. 5 crore. We give a few ads from Punjab which is on a pan-India basis. In Maharashtra and Gujarat, our copier demand is quite good and hence we give separate state-wise ads also.

Aman Sonthalia: The present towel capacity is around 43,000 tons and you are merging Trident Corporation with Trident Limited. I have seen in the balance sheet that you are not fully utilizing your present capacity of Trident Ltd. So, if Trident Corporation is merged with Trident Limited, how will you manage such a huge capacity given that you are not able to utilize the existing capacity?

Arun Goyal: The existing capacities are fully booked. In the Terry Towel division, out of 388 looms, 20-25 looms are under sampling because we have to develop new products and new samples. In this quarter, our two customers gave us an order for a different high value-added product, so stabilizing the production of that product took time. Obviously we have to pay Rs. 2-4 crore more but it is an investment for us because we are coming up with new capacities. So, present capacity is fully booked, although utilization depends upon the product mix. Moreover, the value added products require lower GSM which results into lower quantity in terms of tonnage though quantity in terms of pieces as well as the revenues are higher.

With the new capacities, the management is aggressively working on creating a brand in the domestic business because domestic market is also a big market but we are not selling it as we feel that efforts are more and it is less remunerative vis-à-vis US & Europe. If you see the global data, US is the most remunerative market, then comes Europe and then comes India. However, for India we are developing separate products which are not like US because in US, people's body shapes are different so they take very weighty and higher GSM towels. If you go to Taj and Oberoi's they are using our towels, but again that towel is not for residences because that is a very big towel. So we are creating different towels.

Aman Sonthalia: Do you think that the forthcoming capacity will be fully utilized going forward?

Arun Goyal: We internally take targets on a quarter-on-quarter basis because technology absorption takes time. So, it is in a phased manner i.e. first quarter 60%, second quarter 70%, third quarter 80% and so on.

Aman Sonthalia: So when do you expect this plant to start commercial production?

Arun Goyal: Trials have started, so very soon the commercial production will also start. There are few inherent benefits like 7% extra interest subsidy from the MP government in our new unit at MP.

Aman Sonthalia: In the towel unit also?

Arun Goyal: Yes, in towel unit as well.

Aman Sonthalia: So you are getting 7% interest subsidy and what else?

Arun Goyal: And the power cost is cheaper by 20% vis-à-vis Punjab. It is also near to the port. From Punjab if we take out a 45 foot container, we pay Rs. 50,000 from Barnala to say JNPT or Mundra. From MP, it will again be 30% to 40% less and transit time will also be lesser.

Aman Sonthalia: From which port do you export?

Arun Goyal: We use 3-4 ports; From Mumbai, both the ports- JNPT and Nhava Sheva, then in Gujarat we use Mundra and Kandla. So we use all the four ports.

Aman Sonthalia: Do you also receive the technology upgradation fund interest subsidy for the towel unit?

Arun Goyal: Yes, it is 7% for five years.

Aman Sonthalia: So, 7% from the MP government and actually 4% from the central government as you get it on 80% of the loan?

Arun Goyal: Yes, close to 70%-80% loan

Aman Sonthalia: How much will be the equity dilution and debt increase due to this merger?

Pawan Jain: The new equity issued will be around 13.7 crore shares. Current equity base is 31 crore shares. Post-merger, the equity base would go to about 44.7 crore shares excluding warrants.

Aman Sonthalia: And how much will be the debt increase?

Arun Goyal: Presently the debt is Rs. 834 crore, but repayments have already started, so approximately Rs. 810 crore.

Aman Sonthalia: But this is very low interest debt right?

Arun Goyal: Yes. Very low interest debt.

Aman Sonthalia: So what will be the interest in percentage, on this Rs. 810 crore?

Arun Goyal: Technically, we will pay 2%-3% on the term loan plus we will have to use our working capital for normal working capital needs. Net-net Rs. 200 crore will be the working capital required where the interest cost will be 10%. Hence, the financial cost overall will be very competitive.

Aman Sonthalia: Yes, it will be very less and the working capital interest will be compensated by lower freight and lower power cost?

Arun Goyal: Yes

Aman Sonthalia: When will the capacity increase take place in the paper division? Right now our capacity is around 175,000 TPA and I guess you are increasing it to 2 lac tons. So when is this expected?

Arun Goyal: We have two paper machines. We are adding shoe press and few drawers to the second machine. So this will enhance the capacity plus the quality of paper would also improve. This will take at least 12 months from now.

Aman Sonthalia: So this will increase your copier capacities as well?

Arun Goyal: Yes. It will give us two advantages. Firstly, the overheads will not increase to a greater extent. For instance, despite adding capacities by 20%, the overheads may increase only by 8-10%. So, overall cost of production will come down and there will be value addition as well.

Aman Sonthalia: What is the interest rate on our total loan of Rs. 1,754 crore?

Arun Goyal: The weighted average rate will be 10%.

Aman Sonthalia: And every quarter we are repaying some amount right?

Arun Goyal: Yes. We are repaying close to Rs. 105 crore every quarter.

Aman Sonthalia: Are we entering in the European market?

Arun Goyal: We are already present in Europe. We are tying-up with one or two big retailers. However, countries like England and Germany are not very big buyers as it is a fragmented market.

Aman Sonthalia: I attended the concall of Welspun India and they are entering the European market in a big way. At present their exports to Europe is around 20% of the total exports.

Arun Goyal: Ours is close to 14% to 15%.

Aman Sonthalia: So will it increase going forward?

Arun Goyal: Absolutely, yes. We are appointing dealers and agents there. With these enhanced capacities, we will definitely enter Europe. We have also started exporting to Japan and Australia who were buying from China earlier.

Aman Sonthalia: So there is a big market for towels throughout the world?

Arun Goyal: Yes. The manufacturing of towel and bed sheeting is a complicated process. We are not venturing out in an absolutely new avenue. We are trying to capitalize what we have learnt over the last 12-13 years. Whereas Yarn manufacturing is a simple process but there the margins are very less, so we have to go to value-added yarns like Lycra, PVA, core and blended.

Aman Sonthalia: What is the contribution of our value-added yarn?

Arun Goyal: It is close to 42%-45%.

Aman Sonthalia: So around Rs. 10-15 more is what you get for this value-added yarn?

Arun Goyal: Yes. Besides money, the volatility of cotton as well as the sales price is less. So there is consistency in value addition.

Aman Sonthalia: So in this quarter, there is an increase of 15% in cotton yarn prices w.e.f. 16th December 2013. So will this positively impact our margins going forward?

Arun Goyal: No, I think you must be saying that for cotton.

Aman Sonthalia: No, the cotton yarn.

Arun Goyal: Yarn prices for 20 count is in the range Rs. 218 to Rs. 222 at present. So, Rs. 220 is the average. In last quarter also it was the same.

Aman Sonthalia: But I am seeing a price of Rs. 250 in the Kolkata market.

Arun Goyal: For 20 count?

Aman Sonthalia: I don't know the count, but it was Rs. 220 earlier and right now it is Rs. 250

Arun Goyal: No, the price has not increased to that extent, it has increased a little

Aman Sonthalia: For the present quarter, can we expect better profit in yarn division?

Arun Goyal: I think it will be more or less the same.

Aman Sonthalia: But we are saying that freight cost from MP is lower so that is per ton cost?

Arun Goyal: Because of the bulky material, the towel goes in a bigger container. There are only three container sizes viz. 20 foot, 40 foot and 40 foot high cube. So, big towel goes in the big containers which are called 40 foot high cube. But under that, loading is about 8-9 ton per container depending upon the GSM.

Aman Sonthalia: So, this would cost about Rs. 50,000?

Arun Goyal: Yes. If it goes from Punjab.

Aman Sonthalia: And from MP that will come to Rs. 30,000?

Arun Goyal: Yes. Rs. 30,000-35,000 from MP because in Punjab we have to take the container from Ludhiana ICD to Barnala and then from Barnala to Ludhiana and then rail out from Ludhiana to JNPT or Mundra or Kandla, so kilometers are more.

Moderator: Thank you. The next question is from the line of Harshil Shah from Anvil Wealth Management. Please go ahead.

Harshil Shah: May I know your CAPEX plans for the next one or two years?

Arun Goyal: For the next two years, we are entailing a CAPEX of Rs. 1,667 crore towards adding about 2 lac spindles as well as 500 looms for sheeting. The spindles will purely cater to the sheeting.

Harshil Shah: So 2 lac spindles plus?

Arun Goyal: 500 looms for sheeting.

Harshil Shah: What is your view on the cotton prices. Are they expected to go up? What is the scenario right now?

Arun Goyal: I can give you the overall scenario of cotton, but I cannot predict the prices as such.

Harshil Shah: Not the price but general cotton scenario as well as your views on the Chinese policies. What is the management thinking about it?

Arun Goyal: The data of China as well as the globe has come about 7-8 days back. Overall the inventories as well as the production have come down by 1 million tons.

In India, the cotton production was approximately 350,000 bales last year. For this year, experts have predicted higher production but the production has actually come down to 3,60,000 to 3,75,000 bales. Last year out of 3.50,000 bales, 95,000 bales were exported and in India the cotton exports is 65 lac bales so far. Consumption last year was 2.85 lac bales and now it is close to 3 lac bales.

Normally, January-February are the two months wherein there is immense availability of cotton in the market. However, per day availability of cotton is 2,00,000 to 2,10,000 bales. But present cotton prices if we call it in Kg basis, per kilo it is hovering between Rs. 123 and Rs. 127 as of today.

Harshil Shah: Is this for Shankar – 6?

Arun Goyal: Shankar – 6 cotton is Rs. 126. In Punjab, the cost is Rs. 125, while in MP it is Rs. 122 to Rs. 123 at present. The traders are making good profits. Otherwise in these times the price of cotton comes down drastically.

Harshil Shah: Yes, because export will not happen and China will not import in a big way.

Arun Goyal: So, I feel that the prices of cotton should come down marginally and prices of yarn should increase a bit.

Harshil Shah: And for how long will the export of yarn continue according to you because of these Chinese policies? Up to what price are we competitive vis-à-vis Chinese mills.

Arun Goyal: The Chinese mills are buying very less over the last two months. Exports are going to other countries. China opened day-before-yesterday and they are not talking much about the price increase.

Harshil Shah: Are they closed due to their New Year?

Arun Goyal: Yes. At this price, just a few big companies like us or Vardhman will sustain because if one buys cotton for Rs. 125 and sells yarn at Rs. 225, then you need working capital of close to Rs. 1,000 crore. So only few big players like us will sustain.

Harshil Shah: On the TUF front, are you timely receiving the money from government?

Arun Goyal: Yes, the money from Government is coming. But for the latest one called RR TUF, the money has not come as yet.

Moderator: The next follow up question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Could you please tell me in which plants do you have captive power generation?

Arun Goyal: We have 50 MW captive power generation in our Barnala unit where we do the spinning, manufacture towels and paper. For the Budhni unit, there are three spinning mills. Also, 300 looms are presently under trial runs in Trident Corporation Limited . Post-merger, we would have close to 60 MW power generation, which is under-implementation at present.

Aman Sonthalia: Has the work started for the yarn plant in Budhni?

Arun Goyal: Yes. It has just started.

Aman Sonthalia: When will it be completed?

Arun Goyal: The spinning part will be completed by March 15.

Aman Sonthalia: What is the cost of power in Barnala that you buy? Additionally, what is the cost of captive power produced and what is the cost of power in MP which the government supplies you?

Arun Goyal: You have to use three backups of power when you put up a factory. You can take the full factory load from State Electricity Board. For example, in Punjab we have taken a 100 MW of load. Then for very few critical machines like dyeing machines, ring frame you can have DG sets, which we do not run because power from DG is Rs. 10 plus. Third is the captive power. Hence, we utilize 80% of our power requirements in Punjab captively.

Aman Sonthalia: What is the cost of captive power per unit?

Arun Goyal: It comes to around Rs. 4 to Rs. 4.5 per unit.

Aman Sonthalia: Is interest and depreciation included?

Arun Goyal: Yes, interest and depreciation is included. I would like to highlight that we are taking power from PSEB because we have got 100 MW connection and including all mills put together the connect load bill comes close to Rs. 2 crore. Hence, if the rate of power in

Punjab is Rs. 7 or Rs. 7.25 or Rs. 7.5, then we buy power from them upto Rs. 2 crore and balance we source it from our turbine.

Aman Sonthalia: At what rate are you sourcing power in Budhni?

Arun Goyal: In Budhni, the rate of power is very less. It's close to Rs. 5.60 per unit at present.

Aman Sonthalia: So after installing our own power plant, this cost would sharply come down?

Arun Goyal: Yes it will come down below Rs. 4 because the coal pits are in close proximity to Budhni. In Punjab, we have coal-linkage, but the value of coal is equal to that of freight. Hence, in Budhni the freight rate will be 50% less.

Aman Sonthalia: So after commissioning of Budhni plant, there is some scope for margin expansion?

Arun Goyal: Not in the first year, but yes may be in the second or third year.

Aman Sonthalia: Are you shifting your towel production from Barnala to Budhni?

Arun Goyal: No, we are not shifting.

Aman Sonthalia: I mean you will run both the plants at full capacity?

Arun Goyal: No, not both. The new towel plant at Budhni will run at 60% capacity in the first quarter because we need to set the quality.

Aman Sonthalia: The Barnala one will run as it is?

Arun Goyal: Yes. Barnala plant will run as it is because from there we work on our export orders.

Aman Sonthalia: Do we have sufficient orders in hand, for us to optimally run this capacity?

Arun Goyal: Yes

Aman Sonthalia: Do we have long term orders or short term orders?

Arun Goyal: Usually, the order is for one year and we call it long term order because it is a relationship-based order. Big customers want value added products and they prefer a consistent supplier.

Aman Sonthalia: At present, the price of yarn has increased in China. Pakistan and Bangladesh there are facing labor problems. So you see orders shifting to India from these countries?

Arun Goyal: Not really. The markets like Europe and US distribute their orders to Pakistan, India, Bangladesh and China. In China, the exporters are facing disadvantages as mentioned but the export incentives are very high. So everyone is quoting very competitively as the US clients pay only in dollars. So whosoever's price matches their price, they take the orders from them.

Aman Sonthalia: Welspun was saying that the currency fluctuation will not make any difference to them because their clients have made such contracts where whatever be the currency rate, they will get the cost plus margin. So is Trident making similar contracts?

Arun Goyal: Yes. Almost similar, but it differs from customer to customer.

Aman Sonthalia: In 2011, Trident paid Rs. 1.20 per share as dividend, which was about 12%.This time do we expect Rs. 7-8 per share?

Arun Goyal: As a CFO, I will recommend to declare dividend. Infact, we are thinking of announcing a proper dividend policy this year but you would appreciate that in the last 2-3 years, the Company has made right calls for timely expansions.

Three years back the banks thought that the debt level of the company was very high, but we prudently used our internal accruals for expansions as well as for repayments. So it has come under control which is why we have planned for expansion. Again these expansions are planned in such a way that there is no pressure on cash flow. So hopefully the Board will take a call on dividend.

Aman Sonthalia: Ok. By not declaring dividend there can be a negative perception in the market about the Company because in the last 10 years, the company has paid dividend only two times and unless you are not creating value for the market, the market will not give you the right valuation.

Arun Goyal: I appreciate and agree with you but the final call will be taken by the board.

Aman Sonthalia: So going forward do you see the towel, yarn and paper divisions to do well?

Arun Goyal: Hopefully yes, because our internal focus is always on process improvement. We actually spend heavily on TPM and TQM. We spend close to Rs. 15 crore to Rs. 20 crore on these quality processes every year as there are new machines, new technology and new power saving devices. If you do not keep yourself updated with that then cost of production is a problem.

Aman Sonthalia: Why are you not able to optimally utilize the capacity of your paper division?

Arun Goyal: That's because of the product mix. This year we have focused more on the branded products. Hence, the production has marginally comes down.

Aman Sonthalia: So will it be around 160,000 TPA?

Arun Goyal: It should be about 165,000 TPA for the next year, but following that it will increase because the debottlenecking has started

Aman Sonthalia: So this debottlenecking will be completed in one year?

Arun Goyal: Yes.

Aman Sonthalia: Is there adequate availability of the raw material which may lead to further expansion in this division?

Arun Goyal: There is no problem of agro in the belt where we are work because 50% of the farmers' burn straw as it is very laborious job for them to take the straw out of their fields.

Aman Sonthalia: So other paper Companies like West Coast, JK Paper and Ballarpur make paper using 100% hard wood? Is that the reason for 50-60% cost increase? For wheat straw, how much has been the cost increase in the last 1-1.5 years?

Arun Goyal: It has increased by 40% but the cost of raw material to sales is very low.

Aman Sonthalia: How much is that cost approximately?

Arun Goyal: I think it is between 18% to 20%.

Aman Sonthalia: How much do other companies pay?

Arun Goyal: For them, hardwood to paper is more than 50%.That is why we are at a beneficial position.

Aman Sonthalia: When other paper mills announced a price hike, did you also follow suit?

Arun Goyal: Yes. Our price has increased in one year.

Aman Sonthalia: Is the cost higher to make paper from straw as compared to hardwood?

Arun Goyal: No, raw material is the basic cost in this and the process is different.

Aman Sonthalia: So going forward, the availability of raw material is such that it can produce 2 lac ton to 3 lac ton in two years?

Arun Goyal: Yes. That is not a problem.

Aman Sonthalia: And there are you generating power using rice straw?

Arun Goyal: No. Not with rice straw but with rice husk as its calorific value is very good. Rice straw cannot be used either for paper manufacturing or for boiler because that straw contains a very high content of silica and it may jam the boiler.

Aman Sonthalia: The cost of power per unit at Barnala is Rs. 4.5?

Arun Goyal: Our own manufacturing cost, yes.

Moderator: As there are no further questions I now hand the conference over to the management for their closing comments.

Pawan Jain: Thank you all for joining us on this call. Hope we have been able to answer your questions satisfactorily. Should you need any further information please feel free to contact our investor relations team or CDR India. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Trident Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.
