



TRIDENT GROUP

Trident Limited

Q2 & H1FY14 – Earnings conference call Transcript
November 13, 2013 at 2:00 p.m. IST

Moderator: Ladies and gentlemen, good day and welcome to Trident Limited's conference call. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' followed by '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, sir.

Nishid Solanki: Thank you. Good afternoon everyone and thank you for joining us on the Trident Limited's Q2 & H1 FY14 results conference call. We have with us from the Company Mr. Abhishek Gupta – Chairman, Corporate Advisory Board; Mr. Arun Goyal, Chief Financial Officer; Mr. Samir Joshipura, Chief Strategy Officer; and Mr. Pawan Jain, Company Secretary.

We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session. Before we begin, I would like to add that some of the statements made in this conference may be forward-looking in nature and a note to that effect has been included in the conference call invite e-mailed to you earlier. I would now like to invite Mr. Pawan Jain to make his opening remarks. Thank you and over to you, Mr. Jain.

Pawan Jain: Thank you Nishid. Good afternoon all and welcome to Trident Limited's Q2 & H1 FY14 earnings conference call. I will begin by giving you a brief snapshot of the Company and the corporate initiatives that were undertaken following which Mr. Samir Joshipura will take you through the operational performance across each of our business segments and financial performance for the quarter and half year ended September 30, 2013.

Let me begin by giving you a brief background about the Company. Trident is the flagship Company of Trident Group with presence in terry towels, paper, yarns, chemicals and captive power. Currently, we are among the top five towel manufacturers in the world and one of the largest exporters from India. Some of our marquee customers include JC

Penney, Ralph Lauren, IKEA, Target and Wal-Mart, amongst others. With a total of 388 looms Trident manufactures about 15 million pieces of towels per month. In yarn we are one of the largest spinners in India with a production capacity of 85,000 MT from 3.66 lakh spindles and 3,584 rotors. Given our capability to produce all forms of yarn from multiple blends, we serve a wide range of product segments. Under paper manufacturing, we are one of the largest wheat straw based paper manufacturers using eco-friendly technologies. Our total capacity in paper stands at 450 TPD, which is sold across 35 countries including India, USA, UK, Canada, Middle East and fast growing African countries amongst others. In addition we have a capacity of 1 lakh TPA of Sulphuric acid. We also have a 50 megawatt of captive power plant that enables us to optimize cost and support sustained growth.

The board of directors of Trident Limited and Trident Corporation Limited, an associate of Trident Limited, in their respective meetings of the board held on October 9, 2013 approved the proposal to merge Trident Corporation Limited into Trident Limited, the appointed date of which is April 1, 2014. Based on the valuation report done by BSR & Associates, Trident Limited shall issue and allot 16 equity shares of Rs. 10 each fully paid at a premium of Rs. 18.61 per share for every 25 equity shares of Rs. 10 each fully paid up in Trident Corporation Limited.

This is an important step in our ongoing growth journey towards creating a global scale entity. This merger will bring operational synergies and efficiencies which we will leverage to strengthen our position as one of the leading players in the textile sector in the country and our segments globally. Given the complimentary operations and growth objective, the merger will enable unified alignment of all stakeholders' interest and create an organization with formidable size and economies of scale providing best in class qualities to customers at internationally competitive prices.

Following the merger and the ongoing expansions in the textile and power division, the production capacity of Trident Limited would rise to about 700 looms manufacturing about 360 million pieces of towel per annum and 500 looms manufacturing 50 million meters of sheeting per annum; about 6 lakh spindles manufacturing about 1,50,000 tons of cotton and blended yarns per annum and about 130 MW of captive power. This will make Trident one of the largest integrated home textile manufacturing facilities in the world. The amalgamation is subject to statutory regulatory shareholders' and creditors' approval as relevant.

I now request Mr.Samir Joshipura to give you a brief on the operational and financial performance for the quarter and half year ended September 2013.

Samir Joshipura: Thank you Pawan and good afternoon everyone. There is a positive traction in the domestic textile segment given improving textile and apparel demand from large market combined with benefits accruing from depreciating rupee and structural changes in competing markets like China. This is resulting in improved performance and stronger order book visibility for Indian exporters. India's competitiveness has also benefitted from the appreciation of Chinese Yuan against USD vis-à-vis rupee depreciation against USD and rising labor cost in China. Large international buyers have also diverted orders to India from Bangladesh on account of wage protest.

Within this, the yarn segment in the first half of FY14 benefitted from better yarn imports from China due to high yarn manufacturing cost vis-à-vis Indian counterparts. Until the end of September, the Chinese manufacturers imported over 100 million kg of yarn from Indian manufacturers. We are now seeing more signs of moderation due to lower orders from China. However, booming organized retail and new export oriented capacities being added in the weaving sectors are expected to lead to increase demand in the weaving and knitting segments within the country. Also, as part of the pull strategy, the Company is launching market leadership and branding program by increasing focus on end users and buyers in the value chain, that is brand owners and lifestyle retailers.

To give you a perspective on our yarn operations we produced and sold around 21,500 MT and 22,000 MT of cotton and blended yarns respectively during this quarter. Out of this, value added yarn contributed 25% to the total yarn revenues in line with our focus to diversity and maximize our value added product baskets to ensure sustainability. Average realization of quarter stood at Rs. 2.3 lakhs per MT compared to Rs. 2 lakhs per MT in Q2 FY13.

In the Terry Towel segment, the demand outlook is buoyant given an improving consumption trend in US, anticipation of signing FTA in European Union, Japan and South Africa; growing demand in markets like Latin America and Africa and FDI in domestic retail. During the quarter, we manufactured and sold 7,315 MT and 7,054 MT respectively. If you recollect we had indicated in the previous con call that we have received a large order for towels from a Company in US. The production for that order has commenced and it is reflected in the performance for the quarter. Further focus is on quality and on aggressive branding strategy to percolate home textile products in premier customer

segment. We are also laying emphasis on spreading customers geographically to hedge against slowdown in other nations.

Moving on to paper segment, Trident is the world's largest manufacturer of wheat straw based paper. During the quarter we produced 40,204 MT and sold 41,228 MT of paper. During the quarter, we had increased our capacities in copier segment to 7,500 MT per month and going forward we expect to increase our capacity allocation to branded copier segment to around 10,000 MT per month. As a result average realizations improved from Rs. 47,800 per ton to Rs. 51,600 per ton. Going forward we expect realizations to be stable with better market share in copier segment. We are now laying emphasis on increasing the width and depth of our distribution network across both domestic as well as export market.

Let me now summarize the financial performance for Q2 & H1 FY14.

During the quarter, total revenues were higher by 21% at Rs. 1,000 crore vis-à-vis Rs. 826 crore in Q2 FY13. Growth in revenues was driven by higher capacity utilizations combined with increased off-take across all product segments. Further augmenting top-line growth was improved contribution from value added products which fetches better realizations. EBITDA increased by 78% to Rs. 211 crore translating to EBITDA margin of 21.1% from 14.4% in the previous quarter enabled by several cost rationalizations initiatives undertaken over the last few quarters combined with higher contribution from value added products. Further, the Company repaid 8.7% of its outstanding loans amounting to Rs. 96 crore during the quarter, which resulted in 1.8% lower financial cost vis-à-vis Q2 FY13. PAT grew to Rs. 73 crore from Rs. 1.4 crore in the corresponding period of last year translating to non-annualized diluted EPS of Rs. 2.34 per share. Cash profit stood at Rs. 141 crore, which increased from Rs. 66 crore in Q2 FY13.

For first half of FY14, revenues were higher by 15% at Rs. 1,873 crore. EBITDA margin enhanced from 15.4% to 21.7% at Rs. 405 crore. PAT improved 49x to Rs. 117 crore from Rs. 2.4 crore in the corresponding period of last year translating to non-annualized EPS of Rs. 3.76 per share. Cash profit stood at Rs. 254 crore.

Let me now take you through the business wise performance.

Revenues from yarn business during the quarter were higher by 25% at Rs. 507 crore. PBIDT for the quarter increased from Rs. 23 crore to Rs. 73 crore. Margin improved from 5.7% in Q2 to 14.4% in the current quarter due to various cost rationalization initiatives undertaken along with increased focus on value added products. For the first half of FY14,

revenues and PBIT were higher by 22% and 218% at Rs. 962 crore and Rs. 149 crore, respectively.

In the terry towel segment, revenues and PBIT improved by 12% and 213% at Rs. 363 crore and Rs. 48 crore respectively. PBIT margin enhanced from 4.7% to 13.3% given various cost rationalization initiatives combined with change in product mix towards value added products. For first half of FY14, revenues and PBIT were higher by 5.6% and 65.5% at Rs. 678 crore and Rs. 75 crore, respectively.

Paper and chemical segment revenues in Q2 FY14 were up Rs. 213 crore from Rs. 174 crore. PBIT increased from Rs. 25 crore to Rs. 32 crore and margin improved from 14.2% to 15% given enhanced realizations as a result of improved product mix towards copier segment. For the first half of FY14, revenues and PBIT were higher by 14% and 26% at Rs. 399 crore and Rs. 66 crore, respectively.

Let me now give you a perspective on the balance sheet. Our consolidated gross block stood at Rs. 3,463 crore as on September 30, 2013. Net debt for the period ended September 30, 2013 stood at Rs. 1,646 crore and the cash and cash equivalent stood at Rs. 32 crore. Our total debt-to-equity stands at 2.5 times and long term debt-to-equity stands at 1.2x.

This concludes my operational and financial review and we would be glad to take any questions that you may have.

Moderator: Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Kailash Gandhi from Wallfort Financial Services Ltd. Please go ahead.

Kailash Gandhi: There is a dip in EBIT margins in the yarn and paper division on a sequential basis. This is despite sales going up. Could you please throw some light on that?

Samir Joshipura: In case of paper, there has been an increase in the raw material prices, which is wheat straw, which impacted our margins. Besides, there was a shutdown of our turbines which impacted costs. That said, a portion of that impact was offset by higher realization and improved product mix.

As far as yarn is concerned, the moving average price of cotton notched up. If you compare the cotton prices over the last cotton buying season, it has moved from

somewhere around Rs. 97 - 98 to something like Rs. 102 - 103. So as we keep consuming the cotton and as we follow the FIFO of knocking it off the moving average price of cotton consumption moves up from quarter-to-quarter which is impacting the performance here.

Kailash Gandhi: I understand the increase in costs on the raw material front. But, hasn't the realization improved for yarn in the quarter? Or are you saying that the increase in cost was more as compared to increase in realizations?

Samir Joshipura: You are right. The realizations have improved and I would like to mention here that there was a significant improvement that we witnessed towards the end of Q1 FY14. So the major impact of the increase was visible in the Q1 numbers. Besides, there was some positive due to exports because of the dollar movement. Now, the realizations have not moved up significantly from those levels. However, there is a marginal impact of cost which is showing here. So overall, there is some movement in realizations over last four to five months.

Kailash Gandhi: What is your outlook for cotton and yarn prices for the next two quarters?

Samir Joshipura: Let us first look at the textile sector. There would be better understanding if you go down the value chain and see how it would impact our two businesses i.e. home textiles and yarn.

The international demand of towels seems to be improving with US and Europe economy moving up. The FTA has been signed and the dollar-rupee parity is in our favor at this point of time. So these are the factors because of the demand for Indian textile is increasing and hence the need for the yarn would also improve.

Yarn demand in China has been improving over the last few quarters, especially from India, because India is the only potential source which can cater to China's requirements well. So demand for yarn is quite comfortable. As far as cotton is concerned, there are few factors which we think is going to impact cotton. The season has just kicked off but we think that during the season, there are a couple of factors that is likely to impact cotton prices in India. One is obviously that the cotton production in India has been fairly high and is estimated to be a record production as per the statistics. The inventory of stock to use ratio globally has been the highest this year. So that means the cotton stock available world over is one of the highest and so I am sure everyone would be thinking about how to dispose it off. Secondly, China has been importing cotton heavily for their reserves. But it now seems that the quality of cotton which they had bought earlier is probably

deteriorating. Besides, there are some logistical challenges as well as their warehouses are getting full. So, we do not expect China to be that aggressive in terms of importing cotton. It may still import, but may not be at the same rigor with which it did last year and if we see from cotton parity of Indian cotton vis-à-vis international cotton some of the other country's cotton may become good for import in India. It may in some point in time be that importing cotton from countries like Brazil, African countries, Ivory Coast and Zambia etc. would be cheaper. So these are the factors which would put pressure on cotton prices in India. Additionally, as we move forward in the season, sometime in December or so, the prices should come down and it would then become beneficial for the organization.

Kailash Gandhi: Are we carrying any inventories?

Samir Joshipura: We hold some inventories and there are certain locations where the old cotton is used. Also, we have started buying new stock of cotton. How it works out is that we use cotton based on the product requirement, the kind of SKU we want to produce and which kind of customer or market we are going to cater. So, depending on that, we mix the old (last season's) cotton with new. Based on our estimates, we should use up our inventories by around mid-December.

Kailash Gandhi: Are the margins that we witnessed in the Terry Towel segment in Q2 FY14 sustainable?

Samir Joshipura: Yes, it is sustainable. Let me re-iterate the reasons. One, the demand side is improving. We are witnessing positive signs on the demand front with improvement in economies like US & Europe. Besides, FTA with some of the emerging countries like Japan, South Africa, Middle-East, etc. is helping. Secondly, we as an organization are also moving up the value chain by providing more value added products than so as to say mass or the low value adding products. We now are directly talking to very large brands like Ralph Lauren and all in US and all to supply to their N.I.F. So as we move up the value chain obviously the margin improves. Thirdly, the competitiveness for Indian manufacturers is improving. China has shown a significant disadvantage because of higher power and labor cost and the currency appreciation vis-à-vis USD. Because of these reasons, China, which was a major supplier to US, is lacking the competitiveness in this market. India, for all the reasons discussed before is very well placed to supply to these developed economies. So, that brings me to my first point i.e. demand would remain buoyant. Of course the one reason which we are familiar with is the rupee-dollar parity because of which it looks sustainable and considering that we are still at in the ranges of Rs. 63-64 to a dollar, it obviously is beneficial vis-à-vis what it was last year.

Kailash Gandhi: When is the merger effective and what can we expect the capacities and financial performance to kick in?

Pawan Jain: The appointed date for the merger is April 1, 2014. Currently, this merger is in procedural approvals process and the full impact of merger will be in the next financial year only. So, effectively, you would see the impact of the merger from Q1 FY15 onwards.

Moderator: Thank you. We have the next question from the line of Ritesh from SPA Securities. Please go ahead.

Ritesh Badjatia: What is the total debt and what is the average cost of the debt as of now?

Samir Joshipura: Our total net debt stood at Rs. 1,646 crore as of September 30, 2013. Our average cost of debt is around 9.5%. Please note here that the interest cost would vary for the textile and paper segment. In the textile segment we get benefits in terms of TUF from the central and state governments. For paper and chemical segments, interest rates are as per market rates.

Ritesh Badjatia: What is the quantum of debt under the TUF scheme?

Samir Joshipura: Approximately Rs. 300 crore is under TUF.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to the management of Trident Limited for closing comments. Thank you and over to you.

Pawan Jain: Thank you all for joining us on this call. Do feel free to contact us or our investor relations team for any information or queries that you may have.

Moderator: Thank you sir. On behalf of Trident Limited that concludes this conference.

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