Trident Limited Q1 FY 2020-21

"Industry Outlook & Earnings Frequently Asked Questions"

18th July, 2020

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Business Performance and Outlook:

We will be providing you with the latest updates on the financial results, industry outlook and then answer specific questions that may be helpful to answer the queries regarding the business and financials of the company and way forward. This information has been collated by taking inputs from the senior management, including the business leaders who have the ownership of their business performance thereby presenting you with financial as well as insightful and pragmatic data points.

We remain committed and transparent towards our stakeholders and always maintain high corporate governance.

Further, if you have any queries, please feel free to get in touch with the Investor Relations team.

World Health Organisation (WHO) declared outbreak of Coronavirus Disease (COVID-19) a global pandemic on March 11, 2020. Consequent to this, Government of India declared lockdown on March 23, 2020 and the Company temporarily suspended the operations in all the units of the Company in compliance with the lockdown instructions issued by the Central and State Governments. COVID-19 has impacted the normal business operations of the Company by way of interruption in production, supply chain disruption, unavailability of personnel, closure/lock down of production facilities etc. during the lock-down period and to an extent even subsequent to lifting/easing of lockdown restrictions. However, production and supply of goods has commenced during the month of April 2020 on various dates at all the manufacturing locations of the Company after obtaining permissions from the appropriate government authorities.

As a result of lockdown the volumes for the month of April 2020 and May 2020 have been impacted. Revenue from operations decreased by 46% and profit after tax for the current quarter has decreased by 92% (on standalone basis). The decrease is primarily due to COVID-19 related market volatility during the current quarter. Therefore, results for Quarter 1 of 2020-21 are not comparable to previous corresponding period results. The impact of the pandemic in the subsequent period is highly dependent on the situations as they evolve and hence may be different from that estimated.

A brief overview of the production for Q1 FY21 is given below:

Monthly Production Data

Segment	UoM	Production		
		Apr-20	May-20	Jun-20
Bath Linen	MT	731	2125	3636
Bed Linen	Mn. Mtrs	0.42	1.51	2.22
Yarn	MT	1115	4386	8537
Paper	MT	2645	9851	12013

In terms of financials for the quarter ended 30th June 2020:

- Net Revenue in Q1 FY21 stood at INR 713.4 crores compared to INR 1313.1 crores in Q1 FY20
    - ✓ Bed Linen segment revenue has grown by 37% Q-o-Q basis in spite of lower volumes and owing to better product mix
    - ✓ Exports during the quarter has witnessed growth of 11% over Q4 FY20 and contribution of exports to overall revenue has increased to 74%
- EBIDTA for quarter stood at INR 118.7 crores which translates into 16.6% margin
- Profit after tax for the Q1 FY21 stood at INR 10.1 crores
- Finance cost for Q1 FY21 reduced to INR 23.1 crores as compared to cost of INR 32.5 Crores in Q1 FY20 as the company continues to reduce debt by way of accelerated repayments
- Net Debt reduced significantly as on 30th June 2020 to reach level of INR 1244.5 Crores on account of prepayment of high cost non-TUFS terms loans amounting to INR 140 crores during the quarter, as against net debt of INR 1614.5 Crores as on 31st March 2020; Net Debt to Equity ratio stood at 0.4x

Coming to the segment wise performance:

Textile Segment:

- Revenue for segment stood at INR 585.7 crores in Q1 FY21 compared to INR 1057.4 crores in Q1 FY20.
- EBIT for the segment reduced to INR 13.1 crores

Paper & Chemicals Segment:

- Revenue for the period stood at INR 122.3 crores in Q1 FY21 compared to INR 248.0 Crores in Q1 FY20.
- EBIT for the segment during the period stands at INR 33.7 crores

Industry Outlook

Disclaimer: The current industry outlook is being provided based on the progress made during the last few months after lifting of lockdown. The situation is very volatile currently with daily reporting of increased number of infections all over the world. Going forward, Covid-19 cases and subsequent actions by local governments will be major variables for the industry. Indo- China relationship and US elections may also impact the future outlook for the industry

Home Textile

The Home textile industry witnessed the impact of Covid-19 with majority of large retailers in US and Europe shutting down their stores in Feb-Mar 2020 with exception being few of the retailers who are classified as operating essential goods stores. Further to above, imposition of lockdown across India from end of Mar 20 also impacted the export dispatches related to year end as well as the Q1 of current financial year. Resultantly the orders were put on hold till improvement in economic situation/ lifting of lockdown. The economies have gradually opened up with focus on recovery but at the same time hindered by presence of rising number of Covid-19 cases.

However, on the brighter side, a number of countries around the world, such as the USA & Japan, are looking for alternate production sources other than China. India can capitalize on this situation and present itself as a credible alternative to increase its textile exports share. Incorporating digital strategy in the buying process is also being explored by Indian suppliers.

With US government providing stimulus in shape of direct cash transfer to its citizens, a pent up demand has come up during Q1 FY21. As per the US government Commerce Department retail sales rose 7.5% in June 2020. That was on top of the 18.2% jump in May, which was the biggest gain since the government started tracking the series in 1992.

With social distancing and work from home becoming a norm, it is expected that the end consumer will focus more on home furnishing products. Hygiene and Wellness category are getting increased interest from retailers as the demand for the same has risen up during the current epidemic. Keeping in view the same, Trident has introduced Anti-microbial treatment as standard offering across Bath Linen category which has received very good response from export customers. In addition to the same, the company has introduced several products under anti-viral category.

The company has also created separate e-commerce vertical to cater to increased demand from the online mode.

OTEXA Data:

Market share for US imports of cotton sheets						Market share for US imports of terry towels				
Country	2017	2018	2019	2020*		**Country**	2017	2018	2019	2020*
India	50%	49%	50%	52%		**India**	39%	39%	39%	42%
China	20%	21%	19%	16%		**China**	24%	25%	24%	22%
Pakistan	16%	17%	19%	21%		**Pakistan**	21%	20%	21%	21%
ROW	14%	12%	12%	11%		**ROW**	16%	16%	16%	15%

** (January 2020 – May 2020)*

As per OTEXA data India's share has slightly increased in cotton sheets as well as in terry towel segment in current year as compared to last year.

India will continue to have advantage of largest producer of raw cotton as well as a major cotton surplus & cotton exporting country. This gives a distinct advantage to Indian Home Textile Manufacturers. Home Textiles companies which have invested in terms of scale, Technology & systems are bound to consolidate & grow, leveraging their capabilities with cost effect manufacturing & strong market presence. Trident will further consolidate its business by leveraging the investments in terms of scale, t echnology & systems, leveraging their capabilities with cost effective manufacturing & strong market presence and adding new customers to its portfolio.

Paper

- The paper industry has been hit badly due to Covid-19 pandemic as the delay in start of current year academic session and shift of physical classes to online mode has resulted in reduced demand.

- Despite the gradual opening up of the economy, schools and colleges have not yet been allowed to open and hence the publishing houses and printing presses have reduced orders keeping in view the prevailing pandemic situation

- Offices, being major consumer of copier paper, are also working with reduced staff and operations with more people working from home has also impacted the demand for copier paper

- In addition to above, growing imports from China (14% increase in last financial year) has also impacted the demand for domestic manufacturers as well as created pricing pressure as the manufacturers in China and other ASEAN countries enjoy access to cheap inputs and raw material and also get incentives and subsidies in their own countries.

- We expect the volumes as well as realizations to remain muted going forward

- To improve its product mix, the company has started offering kraft paper which has diverse uses including packaging etc.

- Growing manufacturing sector, requirement of better quality packaging of FMCG products marketed through organized retail and the demand for the upstream market of paper products, such as tissue paper, filter paper, tea bags, light weight online coated paper and medical grade coated paper are expected to drive the paper & paper products market in India in coming years.

Cotton Outlook

- Cotton sowing has picked up pace across the country because of good rainfall, with nearly 92 lakh hectares coming under cultivation so far.

- Last season, farmers had completed sowing operations on 46 lakh hectares around the same period. Cotton sowing is expected to cross 115-120 lakh hectares for the 2020-21 season, according to industry bodies.

- This year, sowing has doubled compared to the last year, according to agriculture ministry data. Sowing began early this year since the monsoon began on time. In areas dependent on rainfall, sowing commences June onwards while in irrigated areas, it begins as early as April.

- The Centre has raised the MSP of medium staple cotton by Rs 260 per quintal to Rs 5,515 for 2020-21 season. The same for long staple cotton has been increased by Rs 275 per quintal to Rs 5,825.

- With majority of first quarter under lockdown, the existing cotton stock will shift the cover period by 1-2 months for majority of textile players who have sufficient cotton reserves at end of March 2020. Hence, the same may impact the start of cotton season where we could see initial pricing pressure on fresh crop arrival in markets. Moreover, cotton buying strategy of Cotton Corporation of India would also impact the pricing of cotton going forward.

- We expect cotton prices to remain near the current levels going forward

Frequently asked questions and their responses

What is the capacity utilization and revenue guidance for the Textile Segment for FY 21?

➔ The first quarter of the current financial year was majorly impacted due to lockdown and then teething issues related to supply chain, containment zones etc. hampered the pickup of capacity utilization. However the company is hopeful of achieving improved capacity utilizations & revenues as compared to previous year in the remaining quarters provided no adverse impact of Covid-19 in the geographies we operate in.

What has been the company's efforts to reduce its debt commitments and become net debt free in future?

➔ The company has undertaken several initiatives over the years to reduce its debt commitments including prepayments of high cost non-subsidy loans, reduction in working capital utilization through retention of cash accruals, other measures to reduce CTC cycle and build up cash reserves.

During the quarter, the company has paid its interest/ instalments commitments due as on 30th June 2020 as well as prepaid few of its high cost term loans amounting to INR 140 crores. Owing to the above initiatives the debt levels of the company have reduced by INR 369 Crores during the current quarter to level of INR 1245 Crores at end of Q1 FY21.

What are the steps taken by the company to reduce its fixed cost of operations?

➔ The company has, during the period of lockdown, reviewed its fixed cost of operations and taken several initiatives to optimize the costs being incurred including:

- Utilization of internal accruals wherever possible instead of raising fresh borrowings
- Introduction of productivity linked variable pay for the employees across cadres
- Automation & upgradation of various processes to increase productivity and reduce cost of operations

What is the reason for reduction in Employee Benefits Expenses in Q1 FY21?

- ➔ Employee benefit expenses is lower during the current quarter compared to previous quarter on account of optimization including structuring of compensation and manpower due to impact on Company's operations on account of COVID-19. The company has introduced performance based compensation across all cadres to enhance earn ability of its employees.

What is the sales strategy of the company going forward since some of the retailers in US market are facing stress due to lockdown?

- ➔ The company has always followed a prudent business policy under which regular review of the operational and financial parameters of the customers is undertaken to mitigate and control the risk. In addition to that, the company review credit reports from external agencies to have detailed analysis as well as undertakes credit insurance cover, wherever available of its customers from insurance companies. The above robust measures will continue to be utilized for the assessment of future transactions.

What is the current status of capex projects being undertaken by the company?

- ➔ The capex project being undertaken by the company before the Covid-19 was Yarn Manufacturing units and Paper Upgradation project which are currently being reviewed owing to Covid-19 situation. The company is reassessing the implementation schedule and viability in view of the changed economic scenario.

What was the average realization (USD/INR) rate in Q1FY21?

- ➔ Our average negotiated rate for the current quarter has been at INR 72.95 per USD

What is the current hedging rate for FY21?

- ➔ Average Forward Hedged Rate for FY21 is around INR 74.13 per USD.

What is the hedging strategy/policy of the company?

- ➔ For hedging export receivables, forward covers are taken for a maturity up to 6-12 months. The hedging strategy division wise is as under:

- Terry Towel Division: Hedging is done on monthly rolling basis at 40%-60% of sales replenishment.
- Yarn/ Paper division: Hedging is done on order to order basis. Whenever any order is confirmed, it is hedged by forward cover.

What is the current manufacturing capacity of PPE kits, revenue and future plans?

➔ Our Tri-Safe PPEs are currently produced for consumption and usage in the domestic market. We are supplying PPEs to state government bodies and organizations. They are available in open market as well for health sector. We have the capability to produce 10,000 PPE's per day.

We ventured into PPE production at the very outset of the COVID-19 in India which was in early April. We had been able to dedicate a part of our cutting & stitching facilities to manufacture PPEs which can be further expanded to meet any surge in demand. With the infrastructure in place, optimised manufacturing capabilities and skilled workforce we did not face any challenges.

Update on the Export Incentive Scheme announced by Govt. to replace MEIS? How much will be the benefit that will be available under new scheme?

➔ Company is presently receiving following export benefits:

Exports Benefits	Home Textiles
Duty Drawback	2.6%
Rebate of Central & State Levies	8.2%

Additional benefit of MEIS of 4% retrospectively withdrawn from Mar 2019. The government has introduced benefits under RoDTEP (Remission of Duties or Taxes on Export Product) scheme for the industry which may provide additional impetus to textile sector in coming years. However, the industry is awaiting further clarification on the benefits and applicability under the proposed scheme

What is the purpose of raising the funds through QIP and NCD?

➔ The same is enabling resolution which the company gets approval from shareholders on annual basis in AGM. The company shall utilize the proceeds for business purposes, including but not limited to augmenting financial resources for organic/ inorganic growth opportunities, meeting the capital requirements of the ongoing consolidation process, meeting and satisfaction of working capital requirements, repayment of existing borrowings, general corporate purposes and financing investment opportunities.

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