

Rating Rationale

August 30, 2022 | Mumbai

Trident Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.4000 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.150 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities and Commercial Paper of Trident Limited (Trident) at 'CRISIL AA/Stable/CRISIL A1+'.

The ratings continue to reflect Trident's diversified revenue profile with leading market position in the home textiles segment and established position in WPP, strong operating efficiency driven by integrated operations, and strong financial risk profile. These strengths are partially offset by exposure to volatility in cotton prices and fluctuations in foreign exchange (forex) rates, working capital-intensive operations, and susceptibility to slowdown in the end-user market and competition in the home textiles segment.

Operating performance is expected to moderate year-on-year basis in fiscal 2023 due to heightened raw material inflation and subdued export demand because of inventory correction at retailers and inflationary impact on consumer demand. Revenues are expected to be flattish in this fiscal as the industry in the first half of the fiscal is expected to face short term headwinds on account of lower export demand while operating margin is expected to moderate to 18-19% this fiscal compared to 21.7% in fiscal 2022. This is also reflected in decline of 10% in revenues quarter-on-quarter in first quarter of fiscal 2023 and moderation in operating margin to 15.6% from 17.5% last quarter. The second half of the fiscal is expected to see improvement in performance with expectations of normalization of EBITDA margins on account of lower cotton prices and revival of demand. Increasing proportion of captive power and captive yarn consumption to support operating margins at 18-20% range in the medium term despite raw material headwinds. Substantially high integrated operations in the industry has resulted in less variability and best in class operating margins among peers.

The capacity utilisation in the cotton yarn segment also reached 88% in fiscal 2022 compared to 80% in fiscal 2021, partially owing to increased captive consumption for production of home textile products as well as strong rebound in the cotton yarn demand and realisations in the industry. Paper segment has also seen ramp up, albeit gradually, with utilisation levels improving to 90% in fiscal 2022. In fiscal 2022, the aggregate revenues grew by over 50%, led by low revenue base of last year, continued traction in home textiles and cotton yarn, recovery in the paper segment, as well as commissioning of planned capacity addition. Furthermore, operating profitability is expected to sustain to over 19%, also supported by implementation of Rebate of State and Central Taxes and levies (RoSCTL) incentives and due to benefit of higher scale.

Financial risk profile remains strong with robust accruals and phased capital expenditure (capex) plan. Net Cash Accrual increased from Rs. 646 crore in fiscal 2021 to Rs. 807 crore in fiscal 2022 however it is expected to moderate to Rs. 550-600 crore this fiscal. The company has reduced its debt from Rs 1952 crore as on March 31, 2020 to Rs 1571 crore as on March 31, 2022 through prepayments from internal accrual, controlled capex as well as non-recourse factoring initiatives. Company plans to undertake capex of Rs 1200-1300 crore over the medium term which will be funded by debt of around Rs 900 crore. The repayment obligations for these loans are back ended which will support the overall financial risk profile and liquidity. Total debt/earnings before interest, depreciation, tax and amortisation (EBIDTA) is expected to remain below 1.5 time for fiscal 2023. Liquidity profile remains healthy, supported by cash and equivalents of over Rs 293 crore as on 31 March, 2022 and average unutilised bank limit of Rs 710 crore for 12 months ending 30, June 2022.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Trident and its two wholly owned subsidiaries, Trident Global Corp Ltd and Trident Europe Ltd due to business and financial linkages. In line with its analytical treatment, CRISIL Ratings has reduced revaluation reserve (Rs 768 crore as on March 31, 2017) while computing the adjusted net worth. The company has revalued its property, plant and equipment, and certain other assets as per Ind AS norms and created a revaluation reserve which has been reduced from net worth and assets.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Diversified revenue with leading market position in the home textiles segment, and established position in WPP**

Trident has an established presence in the textiles and WPP businesses. In the textile business too, revenue is diversified, with 28% coming from yarn, 17% from bed linen and 40% from bath linen (terry towels) in fiscal 2022. The diversity is expected to remain healthy with increasing revenue contribution of bed linen and terry towels. The company is one of the largest manufacturers and exporters of terry towels in India, and following its entry into the bed linen segment, has positioned itself among the leading home textile players in the country. The capacity utilisation in the bed linen and bath linen segments improved to 88% and 61%, respectively, in fiscal 2022 from 80% and 53%, respectively, in fiscal 2021. Though there are near term headwinds, long term potential of the company remains strong.

Business profile remains healthy marked by Trident being the second largest player in home textiles and yarn manufacturing segments in India. Additionally, India is expected to sign FTA with UK this year while it has already signed FTA with Australia, providing India a level playing field in the home textile export market. This, coupled with the China+1 strategy will help garner higher export sales for Trident. Substantial increase in scale of operations leading to market share gain and sustenance of profitability will remain key rating drivers.

In the WPP business, Trident is one of India's leading players, with capacity of 175,000 tonne per annum (TPA). It has an established brand in sub-segments such as copier paper, which is also witnessing healthy growth. The diversity in business streams limits volatility in revenue and profit.

- **Strong operating efficiency driven by integration of operations**

Manufacturing processes of both the home textile and paper businesses are highly integrated. Total captive consumption of yarn stands at around 60%. The bed sheet unit commissioned in fiscal 2016 has captive spinning, weaving, and processing capability, which meets all its requirement. Furthermore, the Company has commissioned 7.6 MW Solar Power Plant at Budhi, Madhya Pradesh for captive use. This Solar Power Project is expected to produce 33500 units per day to be consumed in manufacturing facilities located at Budhi, Madhya Pradesh resulting in considerable savings for the company.

Operating margin of Trident exhibits more stability compared to its peers due to integrated operations and strong focus on cost control. Also, improved capacity utilization and healthy operating margin resulted in RoCE improving from 11.4% three years back to 26.5% in fiscal 2022 and it is expected to remain healthy over 15% in near to medium term.

In the WPP segment, Trident manufactures paper using cost-effective wheat straw as the primary fibre source as against the commonly used wood pulp. The plant is at Barnala in Punjab, which is the largest wheat cultivating state in India. These factors have led to operating margin in the vicinity of more than 25-35% in the WPP business, among the highest in the industry.

- **Strong financial risk profile**

Financial risk profile has improved steadily over the last few fiscals, supported by healthy cash flow generation, and better credit metrics. Gross debt remained stable at Rs 1571 crore at March 31, 2022 from Rs 1536 crore at March 31, 2021 which had reduced from Rs 1952 crore as on March 31, 2020. Debt protection metrics such as debt to EBITDA and interest cover have improved year on year. The gross debt/EBITDA which improved to 1.04 times in fiscal 2022 from 1.86 in fiscal 2021 to remain below 1.5 times over the medium term.

NCA increased from Rs. 646 crore in fiscal 2021 to Rs. 807 crore in fiscal 2022 however it is expected to moderate to Rs. 550-600 crore this fiscal. The capex plan would be implemented in phased manner and debt will be taken for the same due to low cost of funding on account of capex related subsidies and interest subvention. NCA will be used to bring down short term debt and hence total debt will be in the range of Rs. 1,400-1,600 crore over the medium term. The capex and its funding will remain key rating sensitivity factor.

The company's liquidity is adequate and supported by strong cash generating ability, supported by cash and equivalents of over Rs 293 crore as on 31 March, 2022 and average unutilised bank limit of Rs 710 crore for 12 months ending 30, June 2022.

Weaknesses:

- **Exposure to volatility in cotton prices and rupee**

Trident's operating profitability is moderately susceptible to volatility in prices of key raw material, cotton (which constitutes 50% of the cost of yarn). Cotton prices are volatile as they are sensitive to international demand/supply, and factors such as monsoon or pest attacks. This does impact margins despite benefits derived from its large procurement and adequate risk management systems. With cotton increasing over Rs 1lakh/candy and weak demand cycle, the operating margin have been moderating over the last 3 quarters. However, the margins are expected to improve in the second half of the fiscal with demand recovery in the industry.

Furthermore, Trident is a net exporter and derives nearly ~60% of its revenue from exports. While it hedges its forex exposure, any significant volatility in forex rate could impact profitability. Sharp movement in forex rates and cotton prices will be a key rating monitorable.

- **Working capital-intensive operations**

Cotton, the key raw material for the home textiles business, is a seasonal crop and good quality cotton is available only during the peak cotton season (October to March). Trident maintains inventory of 4-6 months at the year-end as cotton availability and quality is generally an issue during the off-season. Furthermore, Trident exports its home textile products (50%+ of overall revenue) to the US, and has a collection period of 45-60 days. Nevertheless, overall working capital requirement remains moderate reflected in gross current assets of 130-140 days. Efficient working capital management is critical to Trident's operations as the company scales up business.

- **Susceptibility to slowdown in the end-user market and to competition in the home textiles segment**

Trident derives nearly 70% of its revenue in the home textiles segment from the US, and hence, is susceptible to any major slowdown or changes in import policies in this market, and to fluctuations in forex rates. Also, as its leading customers account for a large share of its textile revenue, the company's fortunes are susceptible to sourcing policies of these customers. To mitigate this impact, Trident is trying to enhance its presence in Europe, Middle East, Australia and Asian countries. Nevertheless, while export prospects for home textiles are healthy, competition has also increased. Any significant move by competing countries such as China, Pakistan, or Vietnam to push their exports by altering local policies or through bi-lateral relationship with importing countries, can affect the competitive position of Indian players, including Trident.

Liquidity: Strong

Liquidity remains strong. Cash accrual is expected to be Rs 550-800 crore per annum over medium term, against maturing debt of around Rs 50-100 crore per annum. Liquidity is further aided by cash and equivalents of over Rs 293 crore as on 31 March, 2022 and average unutilised bank limit of Rs 710 crore of 12 months ending 30, June 2022.

Outlook: Stable

CRISIL Ratings expects Trident's business risk profile to benefit from its diversified business streams, healthy demand prospects for home textiles and established business position across product segments. Its operating profitability is also expected to remain healthy due to increasing backward integration and strong operating efficiencies. Healthy cash generation and prudent funding of capex will ensure financial risk profile sustains at healthy levels.

Rating Sensitivity factors**Upward factors**

- Sustained increase in scale of operations and sustenance of healthy operating profitability driven by better capacity utilisation across product segments leading to net cash accruals of Rs 900-1000 crore per annum
- Sustenance of improved debt protection metrics for instance debt to EBITDA at 1 time or below
- Substantial improvement in liquidity with sustained increase in unencumbered cash surplus

Downward factors

- Cash accruals of under Rs 500 crore on the back of material decline in profitability due to less-than-envisaged ramp-up in utilisation of bed-linen and towels capacity, or significant volatility in raw material prices or appreciation in rupee value
- Material increase in debt to EBITDA ratio to over 1.7 times, due to sizeable debt-funded capex or acquisition, or significant stretch in working capital cycle
- Sizeable reduction in liquidity, due to stretched working capital cycle, larger-than-anticipated capex, material dividend payout or share buyback.

About the Company

Trident was incorporated in 1990 as Abhishek Industries Ltd, promoted by Mr Rajinder Gupta, and got its present name in 2011. The company, headquartered in Ludhiana (Punjab), manufactures cotton yarn, terry towels, bed linen, and paper. It is one of the leading manufacturers and exporters of terry towels in India. It also manufactures WPP using wheat straw as primary fibre source and distributes copier paper under the Trident brand in the domestic market. Its manufacturing facilities are in Barnala and Budhni (Madhya Pradesh). In the textile business, it has 5.9 lakh spindles, 7624 rotors, 672 looms for terry towels, and 500 looms for bed linen. In paper, it has capacity to produce 175,000 TPA.

In the first 3 months of fiscal 2022, the company posted revenue and profit after tax of Rs 1685 crore and Rs 129 crore respectively as against Rs 1483 crore and Rs 207 crore in similar period in fiscal 2021.

Key Financial Indicators*

Particulars	Unit	2022	2021
Revenue	Rs crore	7006	4562
Profit after tax (PAT)	Rs crore	834	304
PAT margin	%	11.9	6.7
Adjusted debt/adjusted net worth	Times	0.41	0.63
Interest coverage	Times	16.40	9.21

*CRISIL Ratings adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity level	Rating Assigned with Outlook
NA	Long Term Loan	NA	NA	Mar-30	73	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Dec-28	45	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Dec-28	46	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Mar-29	81	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Dec-28	30	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	75	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	75	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	135	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	130	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	25	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	25	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	101	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	100	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	100	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	Sep-31	151	NA	CRISIL AA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	202	NA	CRISIL A1+
NA	Proposed Term Loan	NA	NA	NA	806	NA	CRISIL AA/Stable
NA	Cash credit	NA	NA	NA	1800	NA	CRISIL AA/Stable
NA	Commercial Paper	NA	NA	7-365 days	150	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Trident Global Corp Limited (Subsidiary)	Full consolidation	Business and financial linkages
Trident Europe Limited (Subsidiary)	Full consolidation	Business and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	3798.0	CRISIL AA/Stable		--	29-09-21	CRISIL A1+ / CRISIL AA/Stable	14-10-20	CRISIL AA-/Stable	15-07-19	CRISIL AA-/Stable	Withdrawn
			--		--	12-07-21	CRISIL AA-/Positive / CRISIL A1+	31-07-20	CRISIL AA-/Stable		--	--
			--		--	26-03-21	CRISIL AA-/Positive		--		--	--
Non-Fund Based Facilities	ST	202.0	CRISIL A1+		--	29-09-21	CRISIL A1+	14-10-20	CRISIL A1+	15-07-19	CRISIL A1+	Withdrawn
			--		--	12-07-21	CRISIL A1+	31-07-20	CRISIL A1+		--	--
			--		--	26-03-21	CRISIL A1+		--		--	--
Commercial Paper	ST	150.0	CRISIL A1+		--	29-09-21	CRISIL A1+	14-10-20	CRISIL A1+	15-07-19	CRISIL A1+	--
			--		--	12-07-21	CRISIL A1+	31-07-20	CRISIL A1+		--	--
			--		--	26-03-21	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	715	State Bank of India	CRISIL AA/Stable
Cash Credit	400	Punjab National Bank	CRISIL AA/Stable
Cash Credit	100	Indian Bank	CRISIL AA/Stable
Cash Credit	25	Exim Bank	CRISIL AA/Stable
Cash Credit	200	Canara Bank	CRISIL AA/Stable
Cash Credit	90	Central Bank Of India	CRISIL AA/Stable
Cash Credit	90	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit	180	Union Bank of India	CRISIL AA/Stable
Letter of credit & Bank Guarantee	53	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	68	Punjab National Bank	CRISIL A1+
Letter of credit & Bank Guarantee	35	Canara Bank	CRISIL A1+
Letter of credit & Bank Guarantee	10	Central Bank Of India	CRISIL A1+
Letter of credit & Bank Guarantee	13	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	23	Union Bank of India	CRISIL A1+
Long Term Loan	73	IndusInd Bank Limited	CRISIL AA/Stable
Long Term Loan	45	Punjab National Bank	CRISIL AA/Stable
Long Term Loan	46	State Bank of India	CRISIL AA/Stable
Long Term Loan	81	ICICI Bank Limited	CRISIL AA/Stable
Long Term Loan	30	Indian Bank	CRISIL AA/Stable
Long Term Loan	151	HDFC Bank Limited	CRISIL AA/Stable
Long Term Loan	75	Indian Bank	CRISIL AA/Stable
Long Term Loan	75	Union Bank of India	CRISIL AA/Stable
Long Term Loan	135	State Bank of India	CRISIL AA/Stable
Long Term Loan	130	Punjab National Bank	CRISIL AA/Stable
Long Term Loan	25	Indian Bank	CRISIL AA/Stable
Long Term Loan	25	Union Bank of India	CRISIL AA/Stable
Long Term Loan	101	State Bank of India	CRISIL AA/Stable
Long Term Loan	100	Punjab National Bank	CRISIL AA/Stable
Long Term Loan	100	Bank of Baroda	CRISIL AA/Stable
Proposed Term Loan	806	Not Applicable	CRISIL AA/Stable

This Annexure has been updated on 30-Aug-22 in line with the lender-wise facility details as on 29-Sep-21 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for Consolidation

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