Trident Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	225.00 (Reduced from 243.83)	CARE AA; Stable	Reaffirmed
Long-term/ Short-term bank facilities	1,800.00	CARE AA; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	200.00	CARE A1+	Reaffirmed
Long-term bank facilities ^	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

^ At the request of the company, CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to proposed bank facilities with immediate effect, as it has not availed the said bank facilities.

Rationale and key rating drivers

Ratings assigned to bank facilities of Trident Limited (Trident) continue to derive strength from its experienced management, diversified and integrated operations across textile, paper and chemicals, geographically diversified revenue stream, and long and established customer relationship with large global retailers for its home textile business. Ratings also factor its comfortable capital structure and debt coverage indicators, strong liquidity, and fiscal incentives available for textile sector. Despite increase in its term debt for large size debt funded capex, the overall gearing is expected to remain comfortable in medium term supported by healthy net-worth base.

The rating strengths are, however, tempered by decline in total operating income (TOI) and profitability in FY23 (FY refers to April 01 to March 31) due to slowdown in textile exports followed by high interest rate and inflationary pressure in developed markets, however, TOI and profitability grew in 9MFY24 on y-o-y basis. Ratings also factor the company's working capital-intensive operations, susceptibility of profitability margins to cotton price volatility and foreign exchange rate movements and its presence in the inherently cyclical, fragmented, and competitive textile and paper industries. Ratings also take cognisance of stabilisation and saleability risks associated with the company's large-size debt-funded expansion projects, albeit fiscal incentive associated with the project provides comfort.

The Income Tax (IT) department conducted a search at the company premises/plants in October 2023. CARE Ratings would monitor developments for major material developments.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The ability of the company to significantly grow its scale of operations over the medium term, aided by improved performance across each business segment, resulting in improvement in its improving profit before interest, lease rentals, depreciation, and taxes (PBILDT) margin to over 22% and return on capital employed (ROCE) of around 20% on a sustained basis.
- Improvement in its net debt/PBILDT to below unity and total outstanding liabilities to total new worth (TOL/TNW) to around 0.50x on a sustained basis.
- The ability of the company to diversify its customer base by tapping newer geographies beyond the US and Europe, by customising product offerings to entail higher margins.

Negative factors

- Deterioration in capital structure with TOL/TNW of more than 0.90x and net debt/PBILDT of more than 2x on a sustained basis.
- Elongation in inventory period, leading to operating cycle stretching beyond 130 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that Trident is likely to maintain its market position, given its established presence in domestic and export markets should enables it to sustain its financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Experienced promoters and management team

Trident is promoted by Rajinder Gupta, who has a business experience of over three decades. He resigned as Director and Non-Executive Chairman and was appointed as 'Chairman Emeritus' of Trident with effect from August 09, 2022, to provide

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

mentorship and guidance to the Board. He was conferred with the prestigious Padma Shri award in 2007, in recognition of his distinguished services in trade and industry. He is also the Vice-Chairman of the Punjab State Planning Board. Abhishek Gupta, son of Rajinder Gupta, the Chief of Strategic Marketing, holds a degree in International Marketing from the Harvard Business School. He spearheaded branding initiatives of the copier paper business. In FY23, the company divided its businesses into four verticals: bed sheets, towel, yarn, chemical, and paper. The company has employed business head for each business verticals.

Diversified and integrated operations with captive power plant

Trident has well-diversified operations, which can be classified mainly into two segments: textiles, and paper and chemicals. The textile segment further comprises the home textiles (bath and bed linen) division and spinning (cotton yarn) division, while the latter comprises manufacturing of paper, chemicals, and a captive co-generation power plant.

Segment-wise revenue contribution:

Particulars	FY19	FY20	FY21	FY22	FY23	9MFY24
Yarn	30%	26%	20%	28%	24%	25%
Towel	40%	43%	45%	40%	39%	39%
Bed sheet	11%	12%	19%	17%	15%	19%
Paper and Chemical	19%	20%	16%	14%	21%	17%

About 50% of the manufactured yarn is being captively consumed for the home textile business, which allows the company to exercise better control over cost, apart from ensuring product quality. The company also undertakes weaving and processing of fabrics in-house. Trident manufactures various kinds of agro material-based paper, including branded copier with a production capacity of 1,75,000 tonne per annum. With agro-based products being the main raw material, the company benefits from the location of its paper plant in the agricultural belt of Punjab. Raw material is therefore abundantly available, and the company is able to lower logistics costs. The company also manufactures sulphuric acid for industrial use, while majority of the power requirements for the Punjab-based manufacturing units are met through the co-generation plant. The integration across the textile value chain, in-house power generation supporting a part of the paper and textile business of the company, and a large manufacturing scale, increases Trident's ability to provide quality products at competitive rates to customers. This diversification also imparts greater stability to its operating profitability margins.

Geographically diversified revenue stream

Trident has an established presence in domestic and export markets. It derived 54% of its total revenue in FY23 (PY: 64%) and 63% in 9MFY24 through exports. India accounts for the largest market share in the total US home textile imports both, in towel and bed sheet, whereby a greater preference has been given recently to Indian home textile suppliers in line with the diversification of sourcing plans of key players in the US and European markets. Trident is the second-largest exporter from India of home textile products. Furthermore, the US is a major export market for the company for home textile product, which contributed 33% of its revenue in FY23 (PY: 39%) and 61% of its total export revenue in FY23 (PY: 59%).

Established relationship with large global retail brands and institutional brands

Trident's clientele comprises well-known institutional brands and retail brands. In the home textiles segment, customers include Target Global Sourcing Limited, Wal-Mart Stores Inc., IKEA Supply AG, Amazon Inc, among others. Trident earned 50-60% of its home textile revenue from its top five customers over the last three years ended FY23. The company also has a diversified customer base for it yarn and paper divisions, earning around 25% of its yarn revenue from top five customers. Across all segments, the company has built a strong and diversified customer base, thereby reducing customer concentration risk.

Large scale of operations along-with comfortable capital structure and debt coverage indicators

Trident's TOI stood at ₹6,286 crore in FY23 despite a decline of 10% on y-o-y basis. Trident's capital structure, marked by overall gearing and TOL/TNW, stood comfortable at 0.34x and 0.56x respectively as on March 31, 2023. The company's total debt stood at ₹1,404 crore as on March 31, 2023, which increased to ₹1,865 crore as on December 31, 2023, due to term debt availed for capacity expansion projects. Total debt is expected to peak by March 2024, after completion of large sized expansion projects. The overall gearing is expected to remain around 0.50x over FY24-FY26 supported by a healthy net worth base and accretion of profits.

Despite moderation in debt coverage indicators in 9MFY24, due to increase in debt level and interest cost, it stood comfortable marked by PBILDT interest coverage of above 7x and net debt/ PBILDT below 1.5x in 9MFY24. Debt coverage indicators are expected to improve from FY25 onwards with growth in TOI, improving profitability and in absence of debt funded capex plan.

Fiscal incentives are expected to support Indian textile exporters

Trident is receiving export incentives under Remission of Duties and Taxes on Exported Products (RoDTEP) scheme and Rebate of State and Central Taxes and Levies (RoSCTL) scheme of the Government of India. These incentives create a level-playing field and increase competitiveness of Indian players in the global market. On an average in the last three years ended FY23, Trident received about 8.15% of incentive on its export revenue. India is expected to sign Free Trade Agreement (FTA) with the UK in the near future, while it has already signed FTA with Australia and the UAE, which is also expected to benefit textile export. Amid COVID-19, global textile brands have realised the need to diversify their supply chain as a part of the 'China+1' strategy, which resulted in an increase in exports from the textile sector. Trident, with its significant presence in export markets, is likely to benefit.

Liquidity: Strong

Trident is expected to generate strong cash accruals of ₹750-1,000 crore per annum in FY24-FY26 as against its repayment obligation of ₹146-179 crore per annum in same period. The company's liquidity is supported by unencumbered cash and liquid investment of about ₹450 crore, as on December 31, 2023, apart from undrawn fund-based working capital limits of nearly ₹600 crore as on even date. Trident has also been generating healthy cash flow from operations on a consistent basis. Average utilisation of fund-based working capital limits stood at around 55% for 12 months ended December 31, 2023. Moreover, the company's future cash accruals and undrawn working capital limits are sufficient to fund its on-going expansion capex and incremental working capital requirements. Term loans availed by the company for its debt-funded expansion projects has a door-to-door tenure of 10 years, where repayment obligations are back-ended, which shall support liquidity initially till the company starts generating cash accruals from project.

Key weaknesses

Moderation in operational and financial performance in FY23 from economic headwinds in export markets

Trident reported a decline of 10% in TOI on y-o-y in FY23 due to economic headwinds faced in global markets, impacting home textile industry, which was partially offset by 37% growth from paper and chemical segment. Trident's capacity utilisation was also adversely impacted in FY23 and Q1FY24, however, the same improved sequentially from Q2FY24 onwards.

Quarterly trend of capacity utilisation:

Capacity Utilization (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q2FY24	Q3FY24
Cotton yarn	74%	51%	64%	68%	71%	81%
Towel	43%	44%	57%	48%	57%	62%
Bed sheet	71%	50%	65%	81%	64%	61%
Paper	91%	86%	82%	80%	87%	92%

Trident's operating profitability margin remained healthy and range-bound at 18%-23% in the last five-years ended FY22. However, PBILDT margin declined and stood modest at 14.60% in FY23, primarily due to significant contraction in profitability in its home textile segment due to lower demand from its key export market i.e. the US and significant reduction in spread between cotton yarn and raw cotton. Profitability improvement in its paper segment in FY23 as compared to FY22 supported overall profitability to some extent. With decline in scale of operations and profitability, the company's ROCE moderated to around 11% in FY23 (PY: 22%).

In 9MFY24, Trident's TOI grew by 8% on y-o-y primarily due to recovery in demand of its textile products. CARE Ratings expects Trident's TOI to grow by 8-9% on y-o-y basis with PBILDT margin in range of 15-17% in FY24-FY26. Further, ROCE is also expected to remain moderate between 12-14% in FY24-FY26.

Stabilisation and saleability risk associated with large-size debt-funded expansion plan; albeit fiscal incentive provides some comfort

Trident had planned an aggregate capex of around ₹2,000-2,100 crore for capacity expansion of its spinning, towel, paper, and chemical capacity to meet increasing demand, widening product portfolio and to bring cost competitiveness by having economies of sales. The capex is expected to be funded with a mix of debt and equity in ration of 3:1 respectively. Trident put capex under its chemical segment on hold, while it has not installed some machines under its home textile division, resulting into lower-than-envisaged capex. The company commissioned additional capacities under sheeting, and co-gen in September 2023, spinning capacities in December 2023, while it has commenced production from towel capacity on March 30, 2024.

As articulated by the management, the rationale behind higher debt for the capex is interest subsidy of 5-7% available for five years from the MP Government under the state textile policy. The capex is also eligible for capital subsidy and exemption from payment of electricity duty. Trident has already ramped up its additional yarn capacity and the company expects to ramp up utilisation of its sheeting capacity in 6-12 months. The inability to maintain healthy profitability and cash flows with such a large-size debt-funded capex can lead to moderation in leverage and debt coverage indicators, which would remain a key rating sensitivity.

Working capital intensive nature of operations

The company's operations remain working capital-intensive, primarily due to its significant inventory holding requirements, besides shorter credit period availed from suppliers. The primary raw materials are raw cotton and agro residues, the availability of which is seasonal, and the company procures primarily in bulk on small credit periods to avail discounts. The operating cycle improved despite remaining slightly elongated, at 76 days in FY23 (PY: 87 days), considering inventory holding period of 85 days. October to March being the main cotton season leads to an accumulation of raw material inventory at the end of each financial year. The company usually sells on cash or extends small credit periods in the paper and yarn segments, while in the domestic home textile segment, average credit period is of around a month. To reduce the cash realisation cycle from its debtors, the company has initiated several measures over the last four years ended FY23, leading to a reduced collection period at 24 days in FY23 as compared to 41 days in FY19. The company supports its working capital operations through sanctioned fund-based limits.

Susceptibility of profitability to volatile raw material prices

Material cost formed around 54% of the TOI of Trident in FY23. These primarily include cotton (around 69% of the total material costs), cotton yarn (around 10%), dyes and chemicals (around 12%) and agro-based raw materials (around 9%). The company's key raw materials are cotton and cotton yarn, the prices of which have remained volatile in the past. This exposes profitability margins to raw material price volatility risk. The company's presence in the value-added segments such as bed and bath linen allows it to pass on raw material costs to customers to some extent. However, the overall demand scenario, inventory holding policies, competition, among other factors, determines the company's ability to pass on cotton prices in yarn prices. The global demand for home textiles also determines the extent to which raw material prices can be passed on to customers.

In the paper segment, the company primarily (around 85-90%) uses agro-based materials such as wheat straw, while the remaining is wood pulp. The availability of these materials is also seasonal and depends on factors such as the monsoon, government regulations, area under cultivation, and crop yields, among others.

Foreign exchange fluctuation risk

Trident derived 54% of its total revenue in FY23 from exports. In FY23, the foreign exchange earning stood at ₹3,411 crore (PY: ₹4,546 crore), against which the foreign exchange outgo stood at ₹394 crore. The company does not enjoy a natural hedge due to limited imports. For hedging export receivables, Trident takes forward cover for maturity up to 6-12 months. In the home textiles division (the major contributor to the exports), it hedges 40-60% of its sales orders on a monthly rolling basis. In the paper and yarn segment (minimal exports), the company hedges on an order-to-order basis, using plain forward contracts once the order is confirmed.

Presence in cyclical, competitive and fragmented industry

The Indian textile industry is inherently cyclical in nature. Any adverse changes in global economic outlook and demand-supply scenario in the domestic market directly impacts demand of players such as Trident. Textile industry as a whole, remains vulnerable to various factors such as input price fluctuations, mobilisation of adequate workforce, and changes in government policies for the overall development of the textile industry, marked by highly fragmented structure having a high level of competition and intense pricing pressures. The risk is partly mitigated, as Trident has diversified operations and an established presence. Trident derives majority sales from the export market, which is insulated from vagaries of domestic market to a large extent. The global home textile market is mainly driven by demand from the US and Europe. This demand is catered to by countries such as China, India, Vietnam, and Pakistan. The Indian export home textile market is dominated by a few large players. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries such as China, Pakistan, and Vietnam, among others. While the domestic market has limited established players, Trident faces competition from players of other geographies as well. The paper industry is highly fragmented, with stiff competition from several organised and unorganised players and threat from imports. This limits pricing power of manufacturers, in terms of flexibility to pass on raw material price fluctuation to its customers. It is also inherently cyclical, with demand for paper being directly correlated to the level of economic activity, as higher industrial output leads to increased demand for industrial paper for packaging; increased marketing spend benefits the newsprint and value-added segments; and greater education and office activities raises the demand for writing and printing paper.

Environment, social, and governance (ESG) risks:

Parameter	Compliance and action by the company
Environmental	▪ The company regularly reviews its environmental risks and undertakes initiatives to mitigate them. Periodic audits are conducted to identify potential risks following ISO 14001 guidelines. ▪ The company has mechanism to recycle its products. Trident maintains a zero liquid discharge facility for managing wastewater generated from towel and sheeting processing. Around 95% Water Recovery, 15% less water consumption than benchmark of 50 meter/cubic per tonne. ▪ The zero liquid discharge mechanism covers 100% of towel and sheeting processing at Budhni, which saves more than 6 million litres of fresh water every day. ▪ Trident's decision to manufacture Paper from wheat straw was one of its most important initiatives. 8100+ trees are saved on daily basis by using agro waste (wheat straw and sugarcane waste). Certified by Carbon Footprint for releasing approximately 58% less emission of Co2/kg with use of wheat straw paper vs wood pulp. ▪ Trident has installed captive solar power plant of 17.8 MW and has plan commission another 22 MW solar power plant by 2025.
Social	▪ Trident provides training and motivation, and solid safety measures to its employees. ▪ The company undertakes projects under corporate social responsibilities (CSR) activities to contribute to a more secure and sustainable future. Impacted 11k+ women through health and hygiene initiatives. It established sewing centers in five villages, providing handicraft training and impacting 200+ families through Hastkala initiative. ▪ The company motivated farmers to sell wheat straw waste and prevented it from burning in open fields.
Governance	▪ Trident has an adequate governance structure, with most of its board comprising independent directors and presence of an investor grievance redressal mechanism, whistle-blower policy and extensive disclosures.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

Incorporated in 1990, Trident is the flagship company of the Punjab-based Trident group. Trident is engaged in manufacturing of cotton yarn, towel, bed sheet, paper, and chemical products. The company has its manufacturing facilities at Barnala, Punjab, and Budni, Madhya Pradesh with an installed capacity of 778,944 spindles and 7,624 rotors producing over 180,000 metric tonnes per annum (MTPA) of yarn, 672 looms producing 90,000 MTPA terry towels, 500 looms producing 63 million metres per annum (MMPA) bed sheets, 175,000 MTPA of paper, and 100,000 MTPA of sulphuric acid, and a captive power plant of 65.7 megawatt (MW) and rooftop solar power plant of 17.8 MW as on December 31, 2023. In India, Trident has marketing offices in Mumbai, Gurugram, New Delhi, Chandigarh, and Bhopal. It also has international marketing offices, one each in New York (the US) and Cheshire (the UK).

Brief Financials (₹ crore)	FY22 (A)	FY 23 (A)	9MFY24 (UA)
Total operating income	6,994	6,286	5,091
PBILDT	1,488	918	766
PAT	815	422	325
Overall gearing (times)	0.42	0.34	NA
PBILDT Interest coverage (times)	17.35	11.87	7.26

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest available financial results'
Financials classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2028	225.00	CARE AA; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	1800.00	CARE AA; Stable/ CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	200.00	CARE A1+
Term Loan-Long Term	-	-	-	Not Applicable ^	0.00	Withdrawn

^ Proposed rated debt

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	225.00	CARE AA; Stable	-	1)CARE AA; Stable (31-Mar-23) 2)CARE AA; Positive (01-Apr-22)	-	1)CARE AA; Stable (18-Mar-21) 2)CARE AA-; Stable (03-Apr-20)
2	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (31-Mar-23) 2)CARE A1+ (01-Apr-22)	-	1)CARE A1+ (18-Mar-21) 2)CARE A1+ (03-Apr-20)
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ ST	1800.00	CARE AA; Stable/ CARE A1+	-	1)CARE AA; Stable/ CARE A1+ (31-Mar-23) 2)CARE AA; Positive/ CARE A1+ (01-Apr-22)	-	1)CARE AA; Stable/ CARE A1+ (18-Mar-21) 2)CARE AA-; Stable/ CARE A1+ (03-Apr-20)
4	Term Loan-Long Term	LT	-	-	-	1)CARE AA; Stable (31-Mar-23) 2)CARE AA; Positive (01-Apr-22)	-	1)CARE AA; Stable (18-Mar-21) 2)CARE AA-; Stable (03-Apr-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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