Trident Texofab Limited
August 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.43 (Reduced from 14.10)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Total Facilities	13.43 (Rs. Thirteen Crore and Forty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Revision in the rating assigned to the bank facilities of Trident Texofab Limited (TTL) factors in, decline in scale of operation, deterioration in capital structure and debt coverage indicators and elongation in working capital cycle due to stretched collection and inventory holding period in FY21.

The ratings continue to be constrained by its moderate scale of operations coupled with low profit margins, leveraged capital structure, weak debt coverage indicators, working capital-intensive nature of operation with stretched liquidity position. The rating further continues to be constrained by susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.

The rating however, continues to derive strength from long track record of operation coupled with experienced promoters in the business.

Rating sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.150 crore with tangible net worth base exceeding Rs.50 crore on a sustained basis
- Improvement in the capital structure with the overall gearing reaching below unity and improvement in debt coverage indicators with interest coverage ratio exceeding 3x and total debt to gross cash accruals reaching below 5x on a sustained basis
- Improvement in the liquidity position with utilization of the working capital limits reaching below 80% on a sustained basis

Negative Factors

- Elongation in the collection period exceeding 200 days, inventory holding exceeding 90 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations coupled with low profit margins: Company's total operating income continues to remain moderate and declined by 43.34% to Rs. 51.78 crore in FY21 from Rs.91.39 crore in FY20 due to impact of covid-19 outbreak. Company has achieved total income of Rs. 15.02 crore in Q1FY22 vis-à-vis Rs. 20.51 crore in Q4FY21 and Rs. 1.35 crore in Q1FY21. Further PBILDT margin of the company improved to 9.14% in FY21 vis-à-vis 5.74% in FY20 on account of increase in sales realization from trading of fabrics and increased contribution of manufacturing to 20% in total sales of FY21 compared to 16% in FY20. Furthermore, company's PBILDT margin increased to 8.39% in Q1FY22 vis-à-vis 12.04% in Q4FY21 and 22.22% in Q1FY21. However, its PAT margin declined to 0.68% in FY21 vis-à-vis 0.99% on account of increase in interest cost due to increase in term loan availed and interest paid thereon in FY21. Furthermore, company has achieved net profit margin of 1.00% in Q1FY22 vis-à-vis 4.19% in Q4FY21 and net loss in Q1FY21.

Leveraged capital structure and weak debt coverage indicators: Capital structure of the company remained highly leveraged as company availed term loans to purchase the machineries for its manufacturing activity since FY20 and since then started availing term loans and promoters' contribution in form of unsecured loan. Further it deteriorated with overall gearing remained at 2.86x as on March 31, 2021 vis-à-vis 2.26x as on March 31, 2020 on account of increase in debt level in FY21. Debt coverage indicators deteriorated with total debt to GCA remained at 19.50x in FY21 vis-à-vis 11.30x in FY20 due to increase in debt level and interest coverage ratio also deteriorated to 1.66x in FY21 vis-à-vis 1.94x in FY20 on account of increase in interest cost. Furthermore, interest coverage ratio remained at 1.59x in Q1FY22 vis-à-vis 3.05x in Q4FY21 and 0.48x in Q1FY21.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Moderately working capital intensive nature of operations: The operation of TTL continued to remain working capital intensive and operating cycle elongated to 130 days in FY21 vis-à-vis 58 days in FY20 mainly on account of slow debtor recovery due to impact of covid-19 outbreak. Major funds are blocked in receivables (avg. collection period is 188 days in FY21 vis-à-vis 105 days in FY20) as company offers credit period of around 30-150 days to its clients to sustain in the competitive market scenario and inventory (average inventory period is 71 days in FY21 vis-à-vis 30 days in FY20) as company has to maintain inventory to execute the orders in timely manner. Further on the other hand it receives credit period of around 60-120 days which led to average creditors' period of 129 days in FY21 (vis-à-vis 76 days in FY20). All taken collectively, operations of the company remain working capital intensive.

Liquidity position: Stretched
The liquidity position remained stretched marked by tightly matched accruals to repay its debt obligations. Further, free cash and bank balance remained low at Rs.0.03 crore as on March 31, 2021 (vis-à-vis Rs. 0.08 crore as on March 31, 2020). The company has liquid investment worth Rs. 2.48 crore as on March 31, 2021. The operation of the company remains working capital intensive leading to average utilization of working capital limit of Rs. 10 crore at 98% for past twelve months ended June 2021. The current ratio and quick ratio stood at 1.36x and 1.09x respectively as on March 31, 2021 (vis-à-vis 1.41x and 1.06x respectively as on March 31, 2020). Company had availed moratorium provided by RBI under Covid-19 pandemic situation.
Susceptibility of profit margins due to volatile material prices: The material is the major cost driver (constituting about 89% of total cost of sales in FY21) and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of the polyester yarn, ink, fabric being major cost component amongst all materials is volatile in nature. Accordingly, the profitability margins of the company are susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability.

Presence in competitive and fragmented industry: Company operates in a highly competitive and fragmented textile industry. The company witnesses intense competition from both organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Key rating Strengths
Long track record of operation coupled with experienced promoters in the business: TTL possesses an established track record of more than a decade in the textile industry and is promoted by directors Mr. Hardik Desai along with Mr. Chetan Jariwala who have rich experience for more than two decades in the industry. All the promoters are assisted by experienced management team in the field of accounts, sales and production to carry out day-to-day operations.

Analytical approach: Standalone
Applicable criteria
CARE's Policy on Default Recognition
Criteria on assigning outlook and credit watch to Credit Ratings
Rating Methodology- Manufacturing Companies
Financial ratios (Non-Financial Sector)
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Trident Texofab Limited (TTL) was incorporated in 2008, by Mr. Hardik Desai and Mr. Chetan Jariwala and got listed on Bombay Stock Exchange (SME platform) on October 10, 2017. TTL is engaged in the trading of polyester grey fabric and manufacturing of polyester and polyester blended fabric used in home furnishing products, clothing. Company has factory located in Surat with an installed capacity of 20 lakh meter of fabric per month. It procures polyester yarn, ink and fabric from the suppliers located in Surat and sells its product to the garment processing units in Surat, Ahmedabad, Panipat and Mumbai.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	91.39	51.78	15.02
PBILDT	5.25	4.73	1.26
PAT	0.90	0.35	0.15
Overall gearing (times)	2.26	2.86	Not available
Interest coverage (times)	1.94	1.66	1.59

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	August 2025	3.43	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	1)CARE BB; Stable (30-Jul-20)	1)CARE BB; Stable (24-Apr-19)	-
2.	Fund-based - LT-Term Loan	LT	3.43	CARE BB-; Stable	-	1)CARE BB; Stable (30-Jul-20)	1)CARE BB; Stable (24-Apr-19)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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