Trident Texofab Limited

April 24, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	15.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Trident Texofab Limited (TTL) is constrained by moderate scale of operation coupled with low profit margin, moderate debt coverage indicators, moderately working capital intensive nature of operations, susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.

The rating however, derives strength from long track record coupled with experienced promoters in the business and comfortable capital structure.

Ability of TTL to increase its scale of operations while improving its profitability amidst intense competition while maintaining its capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.

Detailed description of Key rating drivers

Key Rating Weaknesses

Moderate scale of operation coupled with low profit margin

Total operating income remained of the company remained moderate and grew at a CAGR of 9.10% during past five years ended FY18. Total operating income (TOI) of the company grew to Rs. 85.75 crore in FY18 and Rs. 38.76 crore in H1FY19 (vis-à-vis Rs. 76.16 crore in FY17 and Rs. 36.01 crore in H1FY18 respectively) due to increase in order execution in FY18 and H1FY19. Despite more than a decade of operations of the company, the tangible net worth remained small at Rs. 8.26 crore as on March 31, 2018 (vis-à-vis Rs. 3.79 crore as on March 31, 2017) due to low capitalization during past owing to low profitability.

The operating profit margins of company have been low (in the range of 2.12% to 1.26% during FY14-FY18) from the past five years ended FY18 due to trading nature of business. However it marginally improved to 2.03% in FY18 from 1.76% in FY17 mainly on account of proportionately lower employee cost, legal and professional charges, and packing expenses in FY18. Further during H1FY19, PBILDT margin of the company also improved to 2.94% vis-à-vis 1.72% in H1FY18 as company has started manufacturing activity which led to higher margin in FY19. Net profit margins of the company also remained low and below unity during last five years ending FY18. Further with improvement in PBILDT margin and increase in non-operating income from profit on sale of shares of Rs. 0.19 crore in FY18 vis-à-vis 0.03 crore in FY17, net profit margin of the company also improved to 0.87% vis-à-vis 0.43% in FY17. Further during H1FY19, PAT margin of the company improved to 1.32% vis-à-vis 0.44% in H1FY18.

Moderate debt coverage indicators

The debt coverage indicators stood moderate however improved with total debt to gross cash accruals at 5.71x in FY18 vis-à-vis 11.44x in FY17 due to increase in gross cash accruals and lower debt level. Further interest coverage ratio also improved to 2.26x in FY18 from 1.97x in FY17 due to improved profitability. Further during H1FY19 interest coverage of the company stood at 3.56x.

Moderately working capital intensive nature of operations

Operations of TTL are moderately working capital intensive mainly on account of funds being blocked in receivables (avg. collection period is 96 days) as company offers credit period of around 30-150 days to its clients to sustain in the competitive market scenario and inventory 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. All taken collectively, operations of the company remains moderately working capital intensive leading to comfortable utilization of working capital limit with 30% average utilization of its working capital limit (Rs. 10 crore) for past two months ended March 2019.

Susceptibility of profit margins due to volatile material prices

The raw material is the major cost driver (constituting about 97% of total cost of sales in FY18) 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

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

yarn, ink, fabric being major cost component amongst all raw 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 the other 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 a decade in the business and is promoted by managing director Mr. Hardik Desai and Whole Time Director 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.

Comfortable capital structure

Capital structure of the company remained comfortable with improvement in overall gearing to 0.61x as on March 31, 2018 vis-à-vis 1.41x March 31, 2017 on account of repayment of term loan and increase in net worth base due to infusion of equity shares at premium amounting to Rs.3.72 crore in FY18 along with accretion of profit to reserves. Further during H1FY19 overall gearing of the company stood at 0.53x due to accretion of profit to reserve and scheduled repayment of term debt.

Moderate Liquidity position

Liquidity position stood comfortable with current ratio of 1.24x as on March 31, 2018 and quick ratio of 1.08x in FY18. Further company has liquid investment in form of equity shares of Rs. 2.65 crore as on March 31, 2018 and Rs. 1.58 crore as on September 30, 2019 vis-à-vis Rs. 0.82 crore as on March 31, 2017.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

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 grey fabric and it started manufacturing of polyester and polyester blended fabric used in home furnishing products, clothing from April 01, 2018 which contributed 20% of the total revenue in FY19. Company has factory located in Surat with an installed capacity of 6.50 lakh meter of fabric per month. It procures polyester yarn, ink and fabric from the suppliers located in Suarat and sales its product to the customers in Surat, Ahmedabad, Panipat and Mumbai.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	76.16	85.75
PBILDT	1.34	1.74
PAT	0.33	0.75
Overall gearing (times)	1.41	0.61
Interest coverage (times)	1.97	2.26

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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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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)	5.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	5.00	CARE BB; Stable	-	-	-	-

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