

Trident Texofab Limited

July 30, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	14.10	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Facilities	14.10 (Rs. Fourteen Crore Ten Lakh 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) continues to be constrained by moderate scale of operations coupled with low profit margin, leveraged capital structure, weak debt coverage indicators, moderately working capital intensive nature of operations with weak liquidity position. The rating further continues to be constrain 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 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.20 crore on a sustained basis
- Improvement in the capital structure with the overall gearing reaching below unity on a sustained basis
- 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 150 days, inventory holding exceeding 60 days

Detailed description of the key rating drivers
Key Rating Weaknesses

Moderate scale of operations coupled with low profit margins: Company's total operating income, increased by 4.64% to Rs.91.27 crore in FY20 from Rs.87.22 crore in FY19 on account of addition of clients along with receipt of more orders during FY20. However, the overall scale of operations continues to remain moderate with modest tangible networth of Rs.11.52 crore as on March 31, 2020 vis-à-vis Rs.10.53 crore as on March 31, 2019. Further PBILDT margin of the company continued to remain low however it has improved to 5.33% in FY20 vis-à-vis 3.12% in FY19 as company has commenced its manufacturing activities from FY20 which resulted in better realization against trading. However, its PAT margin declined to 0.94% in FY20 vis-à-vis 1.46% on account of increase in interest cost due to increase in utilization of working capital bank borrowings and increase in depreciation cost in FY20.

Leveraged capital structure and weak debt coverage indicators: Capital structure of the company deteriorated with overall gearing remained at 1.99x as on March 31, 2020 vis-à-vis 1.44x as on March 31, 2019 on account of increase in debt level with increase in utilization of working capital bank borrowing as on balance sheet date. Debt coverage indicators deteriorated with total debt to GCA reaching to 12.26x in FY20 vis-à-vis 9.50x in FY19 due to increase in debt level. Interest coverage ratio also deteriorated to 2.02x in FY20 vis-à-vis 3.17x in FY19 on account of increase in interest cost due to increase in utilization of working capital bank borrowings.

Moderately working capital intensive nature of operations: The operations of TTL continue to remain working capital intensive mainly on account of funds being blocked in receivables and inventory. On the other hand, it receives high credit period of around 60-120 days. All taken collectively, operations of the company remains working capital intensive leading to higher utilization of working capital limits.

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

Liquidity position: Weak

The liquidity position remained stretched marked by tightly matched accruals to repay its debt obligations. Its average working capital limit utilization remained high at 92% during past 12 months ended June 2020. Further, free cash and bank balance remained low at Rs.0.08 crore as on March 31, 2020 (vis-à-vis Rs. 0.39 crore as on March 31, 2019). The company has liquid investment worth Rs. 0.89 crore as on March 31, 2020 (vis-à-vis Rs. 1.41 crore as on March 31, 2019). The current ratio and quick ratio stood at 1.41x and 1.06x respectively as on March 31, 2020 (vis-à-vis 1.35x and 1.20x respectively as on March 31, 2019). Further cash flow from operations remained negative at 3.62 crore in FY20 (vis-à-vis negative of Rs. 4.36 crore in FY19). The company has availed moratorium provided by RBI under COVID-19 pandemic situation for the period from March 2020 to August 2020 against its term loan installments and moratorium for interest on cash credit for the period from April 2020 to June 2020.

Susceptibility of profit margins due to volatile material prices: The raw material is the major cost driver (constituting about 86% of total cost of sales in FY20) 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 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 textile industry and is promoted by managing director Mr. Hardik Desai along with 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.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[Rating Methodology – Textile Sector](#)

[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 polyester grey fabric and it started manufacturing of polyester and polyester blended fabric used in home furnishing products, clothing which contributed 30% of the total revenue of FY20. 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 Surat and sales its product to the garment processing units in Surat, Ahmedabad, Panipat and Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	87.22	91.27
PBILDT	2.72	4.86
PAT	1.27	0.86
Overall gearing (times)	1.44	1.99
Interest coverage (times)	3.17	2.02

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for 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)	4.10	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	1)CARE BB; Stable (24-Apr-19)	-	-
2.	Fund-based - LT-Term Loan	LT	4.10	CARE BB; Stable	-	1)CARE BB; Stable (24-Apr-19)	-	-

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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