India Ratings Revises Outlook on Trident to Stable; Affirms 'IND AA'; Withdraws NCDs

Mar 10, 2023 | Other Textile Products

India Ratings and Research (Ind-Ra) has revised Trident Limited's Outlook to Stable from Positive while affirming the Long-Term Issuer Rating at 'IND AA'. The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-convertible debentures (NCDs)*	INE064C07011	3 November 2020	6.83 (biannually)	3 November 2024	INR1,250	WD	Withdrawn

* The NCDs were prepaid in full in November 2022 as per exchange filing dated 3 November 2022

The Outlook revision to Stable reflects Ind-Ra's expectations of Trident's delayed deleveraging over FY23-FY24, on account of a higher-than-estimated increase in the ongoing debt-led capex, along with subdued operational performance in 9MFY23 amid demand deferment mainly from the export customers, given the geo-political concerns. A lower-than-estimated capacity utilisation in 9MFY23, led to a decline in the scale of operations and lower absolute EBITDA generation, leading to a lower return on capital employed (ROCE) expectations for FY23 amid the increased ongoing capex. Nevertheless, Ind-Ra believes the paper segment shall continue to cushion the margins over the medium term.

Key Rating Drivers

Delayed Deleveraging: Given the lower-than-expected EBITDA of INR6.7 billion in 9MFY23 (FY22: INR14.9 billion; FY21: INR8.1 billion) amid moderated demand, Ind-Ra expects the company's net adjusted leverage (net adjusted debt/operating EBITDA) to be higher than its earlier expectation of 0.91x, at around 1.6x in FY23 (9MFY23 trailing 12 months EBITDA basis: 1.18x; FY22: 0.90x; FY21: 1.81x). Ind-Ra expects the company's net leverage to remain above 1.50x in the medium term, due to the large debt-led capex of INR21.16 billion (increased from INR12.23 billion since March 2022) over FY22-FY25, requiring an incremental long-term debt of INR15.86 billion (FY22: INR3.58 billion; FY21: INR3.02 billion; FY20: INR10.51 billion) and consistent likely shareholder distributions of around INR9.0 billion (INR3.6 billion; nil; INR2.6 billion), although supported by improving EBITDA. Trident's gross adjusted debt stood at INR12.7 billion at 9MFYE23 (FYE22: INR16.0 billion; FYE21: INR15.7 billion) while the short-term debt reduced to INR6.5 billion (INR12.1 billion; INR12.3 billion), indicating increased long-term debt for capex amid reduced scale of operations in 9MFY23, despite pre-payment of INR0.626 billion of long-term debt.

An improvement in the financial position over the years, in Ind-Ra's assessment, aids Trident's business profile as it allows the company to better manage cyclical volatility inherent in the home textiles and paper businesses. Additionally, the company's low balance sheet leverage has provided some headroom towards foraying and spending on new growth areas.

Moderated Operational Performance in FY23: Trident's revenue and EBITDA dipped 7% yoy and 42% yoy, respectively, in 9MFY23, led by reduced capacity utilisation, leading to lower volumes despite higher realisations. The moderation in performance can be attributed to deferred export demand driven by the economic slowdown in the major importing nations, the US and Europe, and the uncertainties amid ongoing geo-political tensions. Ind-Ra expects the company's revenue to dip around 7% yoy in FY23 (FY22: INR69.2 billion), owing to the subdued performance in 9MFY23, while a quarter-on-quarter improvement is likely in 4QFY23. Ind-Ra also expects the company's operating EBITDA to be lower at around INR9.5 billion in FY23 (FY22: INR14.9 billion). The textile segment EBITDA is likely to decline sharply to around INR6.5 billion in FY23 (FY22: INR13.93 billion; FY21: INR6.98 billion) while the paper segment EBITDA could rise to around INR4 billion (INR2.53 billion; INR1.99 billion; INR3.29 billion). Ind-Ra expects Trident to maintain a healthy EBITDA run-rate of INR10-14 billion, supported by reasonable ROCE of 12%-15% (FY23 (estimate): 10%; FY22: 21.4%; FY21: 9.7%) post capex in the near-to-medium term.

Dip in Capacity Utilisation Across Segments: Trident's bed linen and terry towels' capacity utilisation dipped to 64% and 48%, respectively, in 9MFY23 (FY22: 88% and 61%, FY21: 80% and 53%) owing to a moderation in export demand due to excess inventory amid economic slowdown and global uncertainties. However, China-plus-one sourcing plans of foreign players and ongoing free-trade agreement negotiations shall structurally improve export demand for India over the medium term by creating a level playing field with other exporting nations. Ind-Ra also observed normalisation of demand from the high levels in FY22, which was driven by increased stay-at-home working conditions and a high focus on hygiene. Trident's paper segment utilisation also moderated but remained healthy at 86% in 9MFY23 (FY22: 90%, FY21: 79%). The segment has cushioned margins in 9MFY23 as schools and offices opened up and is likely to continue to support margins. The yarn segment utilisations also dipped to 63% in 9MFY23 (FY22: 87%; FY21: 81%), led by a lower captive yarn demand.

Healthy Business Profile: Trident has a leading market share in the global terry towel market. The business profile continues to benefit from a large scale of operations; diversified product mix (comprising yarn, terry towels, bed linen, paper and chemicals); strong customer profile and vertically-integrated operations (cotton-to-bed and bath linen). During 9MFY23, home textiles (bath & bed linen), yarn and paper contributed 54%, 24% and 21%, respectively (FY22: 58%; 28% and 14%), to the overall revenue. The company's business profile further benefits from the flexibility to consume yarn internally or sell externally depending upon the yarn market supply and demand dynamics. Furthermore, the distribution is strengthened by the company's presence in various e-commerce platforms, generating healthy revenue traction and expanding the number of franchise model-based own brand stores.

Planned Capacity Expansion: Trident's management has shown a coherent business strategy and strong track record in capacity implementation. The company has planned an additional, large capex of INR21.16 billion over FY22-FY25, to be financed in a debt/equity ratio of 3:1, to increase the capacity of its yarns segment by 48%, sheeting segment by 59%, towel segment by 6%, chemicals segment by 118% and power by 28%. The enhanced capacity is likely to commence operations in phases up to March 2024 and is likely to boost volumes over the medium term. The term loans availed (100% tied up) for yarns and sheeting have the benefits of state interest subsidies of around 6%, leading to an effective interest rate of 1%-2%. Ind-Ra believes the company's capex execution and stabilisation risk will be low-to-moderate, considering the company's track record in the yarn segment and captive yarn offtake of more than half of its capacities.

Liquidity Indicator - Adequate: The average utilisation of the fund-based limits (INR18.0 billion) was moderate at around 75% for the 12 months ended January 2023. Furthermore, the company had moderate free cash balances of INR2.15 billion at 9MFYE23 (FYE22: INR2.52 billion; FYE21: INR0.99 billion). The agency expects Trident's overall cost of debt to remain at 5%-6% over the medium term, supported by the state interest rate subsidies applicable for its existing loans (89% as at end-December 2022) as well as on all additional loans for the ongoing capex. Ind-Ra expects Trident's interest coverage (operating EBITDA/interest expenses) to sustain above 10x over FY23-FY25 (FY22: 17.4x; FY21: 11.3x) on account of the healthy EBITDA and a low average cost of debt (5.42% as of March 2022).

Ind-Ra expects Trident's debt service coverage ratio to be comfortable for its modest scheduled debt repayments of INR1.126 billion (including prepayment of INR0.626 billion), INR0.186 billion and INR1.180 billion in FY23, FY24 and FY25, respectively. Ind-Ra expects the company's free cash flows to turn negative (FY22: INR1.00 billion; FY21: INR1.03 billion) in FY23 and FY24, considering the increased ongoing large debt-led capex and then turn positive again in FY25 supported by enhanced EBITDA generation and reduced capex. Trident has increased its financial flexibility due to its healthy operations and improved balance sheet position, substantiated by the introduction of new private lenders, use of commercial papers and funding through NCDs.

Support from Fiscal Incentives: Trident's operating performance benefits from the export incentives of INR3.87 billion in FY22 (FY21: INR2.09 billion; FY20: INR1.99 billion), which it receives for its textile business. Any adverse change in the government's export incentives schemes could be a risk to its textile segment profitability. Trident's export incentives/other receivables from government authorities were INR0.85 billion in FY22 (FY21: INR 0.64 billion; FY20: INR0.97 billion). Additionally, the company benefits from an interest subsidy of 7%-8% under the textile sector-related fiscal incentives, along with an interest subvention of 2% on export credit facilities.

Paper Business Margin Remained Healthy in 9MFY23: Trident's paper business has consistently exhibited strong, industry-leading EBITDA margins of over 25%, supported by its strong competitive position; high capacity utilisation of above 85% and healthy net sales realisation of above INR55/kg over FY17-FY22. Trident's margins benefit from its wheat straw-based plant as against wood-pulp based plants for other players. While the margins contracted to 25.9% in FY22 (FY21: 28.4%), it again improved to 30.6% in 9MFY23 on reopening of schools and offices, leading to improved and higher realisations. The agency expects the company's paper margins to remain healthy at 22%-27% over the medium term, driven by normalisation of activities post COVID-19.

High Revenue Concentration despite Reduction: The revenue contribution from the company's top customer decreased to 16.7% in FY22 (FY21: 18.2%; FY20: 12.6%) while concentration to its top five clients reduced to 35.2% (41.5%; 30.1%). Furthermore, the geographical concentration from the US market reduced to 39.1% in FY22 (FY21: 43.4%; FY20: 30.3%), indicating moderated but high dependence on one country. Such large clientele is primarily based in the US, the largest importing country of textile products, assuring regular, large order quantities along with aiding in earning high margins and improving operational efficiency. However, any adverse change in foreign trade policies or political instability may affect the business operations. Ind-Ra shall closely monitor revenue diversification in terms of customers and geographies.

Forex and Industry Risks: Trident's margins are vulnerable to volatile raw cotton prices, end-product pricing and fluctuations in foreign currency. The company hedges around 50% of the budgeted home textile sales using forward covers, while yarn and paper divisions hedge sales on order basis. Trident reported a forex gain (including the mark-to-market) of INR225.3 million in FY22 (FY21: gain of INR53.6 million). Additionally, Trident's global presence exposes the company to a global economic slowdown, sourcing policies of its key customers and changes in import policies of importing countries. To mitigate the same, Trident has been growing its domestic home textile business and expanding in other geographies.

Rating Sensitivities

Positive: Timely completion and ramp-up of capacities, an increase in the scale of operations, enhanced geographical and customer diversification coupled with a healthy ROCE while maintaining sound financial metrics with the net adjusted leverage remaining below 1.0x and EBITDA increasing above INR13 billion, all on a sustained basis, would be positive for the ratings.

Negative: Large debt-funded capex/inorganic acquisitions, a decline in liquidity buffers and/or a significant reduction in sales and profitability, resulting in a drop in the ROCE and the net adjusted leverage exceeding 2.0x, all on a sustained basis, would be negative for the ratings.

Company Profile

Incorporated in 1990 as Abhishek Industries Ltd, Trident is promoted by Rajinder Gupta. Headquartered in Ludhiana (Punjab), the company was renamed Trident Limited in 2011. Trident manufactures cotton yarn, terry towels, bed linen and paper. It has three manufacturing facilities located in Dhaula and Sanghera (Punjab) and in Budhni (Madhya Pradesh). On 31 December 2022, the facilities collectively held 589,248 spindles, 7,464 rotors, 672 looms (terry towel) and 500 looms (bed sheet). The company also has a paper manufacturing capacity of 175,000mtpa and a chemical manufacturing capacity for sulphuric acid of 113,150mtpa. The operations are also supported by captive power plants have a total installed capacity of 49.4MW (meeting around 40% of total power requirements). Trident is listed on National Stock Exchange of India Limted and BSE Ltd.

FINANCIAL SUMMARY

Particulars	9MFY23 (Unaudited)	FY22	FY21
Net revenue (INR billion)	47.05	69.19	45.19
EBITDA (INR billion)	6.70	14.88	8.11
EBITDA margin (%)	14.24	21.50	17.94
EBITDA interest coverage (x)	12.03	17.35	11.26
Net adjusted leverage (x)	1.18*	0.90	1.81
Source: Company, Ind-Ra; *on an annualised basis			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	7 March 2022	9 March 2021	14 October 2020
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Positive	IND AA/Stable	IND AA-/Positive
NCDs	Long-term	INR1,250	WD	IND AA/Positive	IND AA/Stable	IND AA-/Positive

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Shradha Saraogi
Senior Analyst
India Ratings and Research Pvt Ltd
Room no - 1201, 12th Floor, OM Towers, 32 Chowringhee Road, Kolkata-700071, India
+91 33 40302509
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Rajat Mehta
Senior Analyst

Chairperson
Prashant Tarwadi
Director
+91 22 40001772

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Corporate Rating Methodology

The Rating Process

Evaluating Corporate Governance