TRIDENTGROUP™
Being different is normal

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TRIDENT/CS/2021
March 10, 2021

| | |
|---|---|
| The Manager<br>Listing Department<br>National Stock Exchange of India Limited<br>Exchange Plaza, Plot No. C/1, G Block<br>Bandra Kurla Complex, Bandra (E)<br>Mumbai - 400 051 | The Manager<br>Listing Department<br>BSE Limited<br>Phiroze Jeejeebhoy Towers<br>Dalal Street<br>Mumbai - 400 001 |
| Scrip Code:- TRIDENT | Scrip Code:- 521064 |

Dear Sir/Madam

**Sub: Credit Rating of Trident Limited**

Pursuant to Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are pleased to inform you that the Long-Term Credit Rating of the Company, for Non-Convertible Debentures, has been upgraded by India Ratings and Research (Ind-Ra), a Fitch Group Company. The details are as follows :

| | |
|---|---|
| Instrument Type | Non-Convertible Debentures (NCDs) |
| ISIN | INE064C07011 |
| Date of Issuance | 3 November 2020 |
| Coupon Rate (%) | 6.83 (biannually) |
| Maturity Date | 3 November 2024 |
| Size of Issue (Million) | INR 1,250/- |
| Rating/Outlook | IND AA/Stable |
| Rating Action | **Upgraded** |

Earlier, the Company has issued the Commercial Paper, amounting to INR 500 Million and the same has already been repaid in full. The credit rating assigned to these repaid Commercial Paper has been withdrawn by India Ratings and Research (Ind-Ra).

A copy of the formal rating rationale issued by India Ratings and Research (Ind-Ra), a Fitch Group Company, is enclosed herewith.

This is for your reference & record please.

Thanking you,

Yours faithfully,
For **Trident Limited**

RAMANDEEP KAUR Digitally signed by RAMANDEEP KAUR
Date: 2021.03.10 12:22:01 +05'30'

**(Ramandeep Kaur)**
**Company Secretary**
ICSI Membership No.: F9160
Encl: as above

10/03/2021 TL/2021/006952

India Ratings & Research
A Fitch Group Company

# India Ratings Upgrades Trident and its NCDs to 'IND AA'/Stable

09
MAR 2021

By Akash Krishnatry

India Ratings and Research (Ind-Ra) has upgraded Trident Limited's (Trident) Long-Term Issuer Rating to 'IND AA' from 'IND AA-' with a Stable Outlook. The instrument-wise rating actions are as follows:

| Instrument Type | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|---|
| Non-convertible debentures (NCDs) | INE064C07011 | 3 November 2020 | 6.83 (biannually) | 3 November 2024 | INR1,250 | IND AA/Stable | Upgraded |
| Commercial paper (CP) | - | - | - | Up to 360 days | INR500 | WD | Withdrawn; paid in full |

The upgrade factors Trident's better-than-Ind-Ra-excepted balance sheet deleveraging through strong operational performance (including capacity utilisation, sales and margins beginning 2QFY21), working capital management and limited capex. The company's improved financial position, in Ind-Ra's assessment would also aid Trident's business profile as it allows the company to better manage cyclical volatility inherent in 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.

## KEY RATING DRIVERS

**Quicker Deleveraging to Cushion Business Volatility:** Trident's net adjusted debt reduced at a faster clip than Ind-Ra expected to INR9.9 billion during 9MFY21 (FY20: INR16.1 billion). The management expects to become net long-term debt negative over FY22 (9MFY21: INR3.5 billion; FY20: INR10.5 billion). Trident's short-term debt also declined to INR7.1 billion in 9MFY21 (FY20: INR9.0 billion; FY19:INR11.4 billion) led by healthy internal cash accruals and decline in debtors. The decline in the debtors was a result of the increasing use of non-recourse receivable financing facilities for its export (commenced in FY20) customers, and dealer-financing facilities being initiated by the company in FY20 that covered eligible domestic yarn, paper and home textile dealers.

Given the better-than-expected decline in debt and healthy EBITDA of INR5.8 billion in 9MFY21 (FY20: INR8.4 billion), Ind-Ra expects the company's net adjusted leverage (net adjusted debt/operating EBITDA) to be better, than the previous expectation of 2.4x, at 1.5x in FY21 (9MFY21 trailing 12 months EBITDA basis: 1.4x; FY20: 2x; FY19: 2.5x; FY18: 3.3x). Ind-Ra expects the company's net leverage to further improve and sustain below 2x in the medium term, though the same remains contingent on its capex outlay (9MFY21: INR1.7 billion; FY20:INR1.64 billion; FY19: INR1.43 billion), and its shareholder distributions (FY20: INR2.6 billion; FY19: INR1.3 billion; FY18: INR0.9 billion). Ind-Ra has assumed an annual capex outflow of INR5 billion.

Ind-Ra believes the company's improved financial position will also aid Trident's business profile, as the management can now pursue new growth areas. Furthermore, the agency believes the impact of the inherent business margin volatility on the financial credit metrics would be cushioned by its strong balance sheet. Ind-Ra believes that with reducing interest subsidies, textile players with stronger balance sheet and ability to borrow at competitive rates would be able to create higher economic value addition for the same amount of capital deployed.

**Likely Healthy Revenue and EBITDA in FY21 and Beyond:** Trident posted strong recovery over 2QFY21-3QFY21, which helped it arrest declines in its revenue and EBITDA at 16% and 22% yoy despite weak 1QFY21 with revenue and EBITDA decline of 46% and 62%, respectively, due to COVID-19 led lockdowns. Ind-Ra expects the company's revenue to remain healthy with an overall decline of about 5% yoy in FY21 (FY20: INR47 billion) owing to its likely strong performance in 4QFY21 as well. Ind-Ra also expects the company's operating EBITDA to be robust in FY21 at about INR8.5 billion. The agency believes the segmental EBITDA may undergo a shift with the textile segment EBITDA increasing to INR6.7 billion in FY21 (FY20 Ind-Ra estimates based upon EBIT reporting: INR5.5 billion) while paper segment EBITDA falling to around INR1.9 billion (INR3.3 billion). Ind-Ra expects Trident to continue maintaining healthy EBITDA run-rate of about INR10 billion, supported by reasonable return on capital employed (RoCE) of 11%-12% (FY21 estimates : 9.5%; FY20: 9.2%) in the near-to-medium term.

**Uptick in Capacity Utilisation Broad Based:** Trident's bed linen and terry towels' capacity utilisation continued to improve with utilisation levels of 100% and 62%, respectively, in 3QFY21 (9MFY21: 76% and 50%, FY20: 60% and 48%). The pickup in the utilisation can be ascribed to a shift towards Indian home textile players, in line with dual-sourcing plans for some of the key players and economic stimulus-led consumer demand uptick in the US and European markets. Ind-Ra has also observed an increasing demand push due to increased stay-at-home working conditions and a high focus on hygiene. However, Trident's paper segment utilisation recovery has been gradual, though better than industry peers to 87% in 3QFY21 (9MFY21: 74%, FY20: 86%).

Ind-Ra expects Trident to witness strong yoy growth of over 35% in the bedsheeting segment; modest growth of 5%-10% in the towel segment and marginal declines of 10%-12% each in its yarn and paper sales volumes in FY21 driven by a quick demand and sales turnaround. The yarn segment utilisations also recovered fully to 97% in 3QFY21 (2QFY21: 94%) from a low of 49% in 1QFY21 (FY20: 92%), led by a strong captive yarn demand.

**Healthy Business Profile:** Ind-Ra notes that Trident has leading market share in global terry towel market. Trident's business profile continues to benefit from its 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 9MFY21, home textile (bath & bed linen), yarn and paper contributed 66%,18% and 16%, respectively (FY20: 54%; 26% and 20%) 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.

Trident's plan for yarn expansion of INR11.4 billion has reduced to INR6.5 billion, to be executed over FY21-FY22, while its paper de-bottlenecking-cum-expansion projects have been put on hold. Ind-Ra believes the company's capex execution and stabilisation risk will be low-to-moderate considering the company's track record in yarn segments and captive yarn offtake of more than half of its capacities.

**Liquidity Indicator - Adequate:** Trident's average of monthly peak utilisations against the available fund-based working capital was comfortable at 75% during the 12-months ended December 2020. It had unrestricted cash and equivalents (including liquid instruments) of INR0.77 billion at December 2020 (FYE20: INR3.18 billion; FYE19: INR0.76 billion). Ind-Ra expects Trident's interest coverage (operating EBITDA/interest expenses) to strengthen to over 10x in FY21 (FY20: 7.6x, FY19: 8.3x) and sustain in FY22 on account of healthy EBITDA and a low average cost of debt (4.9% as of March 2020).

The agency expects Trident's overall cost of debt to remain about 5% over the medium term, supported by the state interest rate subsidy for its ongoing capex in yarn segment. Trident generated strong cash flow from operations of INR11.2 billion in FY20 (FY19: INR5.5 billion), led by a shorter collection cycle. Ind-Ra expects the CFO to decline but remain healthy around INR7 billion over FY21-FY23; however, the agency expects the free cash flow to turn modest (FY20: INR7.9 billion) amid the ongoing capex and likely increase in shareholder distribution as the debt repayments remain minimal.

Ind-Ra expects Trident's debt service coverage ratio to remain very comfortable at around 5x over FY22-FY23 with modest scheduled annual repayments of INR1.3 billion. Trident has increased financial flexibility due to its healthy operations and improved balance sheet position, substantiated by the introduction of new lenders, use of CPs and funding through NCDs.

**Support from Fiscal Incentives:** Trident's operating performance benefits from the export incentives of INR1.99 billion in FY20 (FY19: INR1.94 billion) which it receives for its textile business. Any adverse changes 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 INR0.98 billion in FY20 (FY19: INR0.93 billion). Additionally, Trident benefits from interest subsidy of 7%-8% under the textile sector-related fiscal incentives.

**Despite Contraction, Paper Business Margin Remained Healthy:** Trident's paper business has consistently exhibited strong, industry-leading EBITDA margins of over 36% and EBITDA/kg of INR20, supported by its strong competitive position; high capacity utilisation of above 85% and healthy net sales realisation of above INR55/kg over FY17-FY20. Trident's historical and projected EBITDA/kg have been arrived by Ind-Ra using the company's historical production volume data and Ind-Ra's paper industry estimates. Trident's margins benefit from wheat straw-based plant and the agency expects Trident's paper margins to correct but remain healthy at 28%-30% in FY21 despite severe demand slowdown exerting increased price pressures. The agency expects the same to gradually improve back to its previous strong levels over FY22-FY23. The segmental margins remain exposed to lumpy capacity additions creating demand supply mismatches.

**Forex and Industry Risks:** Trident's margins are vulnerable to volatile raw cotton prices, end-product pricing and fluctuations in foreign currency. Trident hedges around 50% of the budgeted home textile sales using forward covers, while yarn and paper divisions hedge sales on order basis. As on 31 March 2020, small amounts of INR75 million of trade receivables and INR100 million of trade and capital payables were unhedged. Trident reported a forex gain (including the mark-to-market) of INR192 million in FY20 (FY19: loss of INR665 million). Additionally, Trident's global presence exposes the company to global economic slowdown, sourcing policies of its key customers and changes in import policies of the importing countries. To mitigate the same, Trident has been growing its domestic home textile business and expanding in other geographies.

## RATING SENSITIVITIES

**Positive:** Increased scale of operations, entry and scale-up in new product/segments opening up new areas of growth coupled with a healthy RoCE, clear capital allocation framework and strong liquidity buffers while maintaining sound financial metrics would be positive for the ratings.

**Negative:** Large debt-funded capex/inorganic acquisitions, decline in liquidity buffers and/or significant reduction in sales and profitability resulting in a drop in the RoCE and the net adjusted leverage exceeding 2x, 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 manufacturing facilities in Barnala (Punjab) and Budhni (Madhya Pradesh). On 31 March 2020, the facilities collectively held 555,964 spindles; 5,504 rotors; 688 looms (terry towel) and 500 looms (bed sheet). The company also has a paper manufacturing capacity of 175,000 tonnes per annum.

FINANCIAL SUMMARY

| Particulars | 9MFY21 | FY20 | FY19 |
|---|---|---|---|
| Revenue (INR billion) | 31.7 | 47.0 | 52.2 |
| EBITDA margin (%) | 18.1 | 17.9 | 18.7 |
| Interest coverage (x) | 11.8 | 7.6 | 8.3 |
| Net adjusted leverage* (x) | 1.4 | 2.0 | 2.4 |
| Source: Trident, Ind-Ra<br>* trailing-12 months EBITDA basis | | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating | | |
|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating | 14 October 2020 | 28 August 2019 | 6 July 2018 |
| Issuer Ratings | Long-term | - | IND AA/Stable | IND AA-/Positive | | |
| NCDs | Long-term | INR1,250 | IND AA/Stable | IND AA-/Positive | - | - |
| CP | Short-term | INR500 | WD | IND A1+ | IND A1+ | IND A1+ |

## COMPLEXITY LEVEL OF INSTRUMENTS

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

## SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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