

India Ratings Assigns Trident's Commercial Paper 'IND A1+'

11

By Akash Krishnatry

APR 2017

India Ratings and Research (Ind-Ra) has rated Trident Limited's (Trident) commercial paper (CP) programme as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
CP*	-	-	-	INR500	IND A1+	Assigned

* The CP has been carved out of Trident's working capital limits and will be used to meet working capital requirements.

KEY RATING DRIVERS

Robust Business Profile: Trident has a large scale of manufacturing operations and a diversified product mix (comprising yarn, terry towels, bed linen, paper and chemicals) catering to leading global retailers, as well as the domestic market. Trident successfully completed a large debt-funded terry towel and bed linen expansion in FY16. It is currently focused on increasing capacity utilisation levels. Terry towel capacity utilisation increased to 49% in 9MFY17 from 41% in FY16. Meanwhile, the capacity utilisation of the newly commissioned bed linen was 29% in 9MFY17 (first year of operations). Trident has a subsidiary in the US and Europe each to reinforce its marketing efforts in the regions.

Large vertically integrated home textile facilities (cotton-to-bed and bath linen) provide the benefits of low cost, faster order execution and better quality controls. Moreover, its paper segment diversifies its overall earnings base. In 9MFY17, bed and bath linen, yarn and paper contributed 48% (FY16:46%), 34% (32%) and 18% (22%) to revenue, respectively.

Strong Earnings Growth: Trident's revenue and EBITDA grew 26% yoy and 30% yoy to INR34.9 billion and INR7.3 billion in 9MFY17, respectively, driven by home textile volume growth. Ind-Ra expects Trident to ramp up its terry towel and bed linen production volumes over FY18-FY19, leading to overall EBITDA growth of 10%-12%. Increasing scale, higher value-added products in the portfolio, additional fiscal incentives (such as the scheme for rebate of state levies on export of made-ups), and use of low-cost raw materials (i.e. wheat straw) for paper manufacturing would continue supporting EBITDA margin (9MFY17: 20.8%; FY16: 19.5%).

Ongoing Deleveraging Strategy: Net adjusted leverage (adjusted for bill discounting of INR2.1 billion and corporate guarantee of INR0.40 billion) improved to 3.1x (considering EBITDA on an annualised basis) in 9MFY17 from 5.2x in FY16 due to strong profitability and pre-payment of term debt using free cash flows. Trident repaid INR4.0 billion worth of debt in 9MFY17 and INR4.6 billion worth of debt in FY16. Both repayments included a total pre-payment of about INR2.3 billion high-cost debt. Ind-Ra expects net adjusted leverage to remain in line with the 9MFY17 level at 3.2x in FY17 and improve to about 2.4x in FY18. A large debt-funded capex of INR28 billion over FY13-FY16 and slow absorption of new capacities led to net adjusted leverage peaking at 5.2x in FY16 (FY15: 4.4x). However, as of December 2016, INR16.6 billion of long-term loans (representing about 78% of the total term loans) carry interest rate subsidy under centre/state Technology Upgradation Fund Scheme.

Comfortable Liquidity: Trident's average utilisation of fund-based working capital limits was 92% during the 12 months ended December 2016. Moreover, its average utilisation of adjusted working capital limits (considering cash and equivalents) was about 69% during the 12 months ended December 2016. It had unrestricted cash and equivalents of more than INR2.0 billion as of December 2016. Its interest coverage has remained strong and improved (9MFY17: 7.0x; FY16: 5.3x; FY15: 3.2x) on account of a rise in EBITDA and a low average cost of debt (4.2% as of December 2016). Textile sector-related fiscal incentives contributed to the strong coverage. Ind-Ra expects Trident to generate free cash flow over FY18, further strengthening its liquidity. Industry-level debt is usually high at the end of the financial year due to build-up of cotton inventories. However, Trident is likely to maintain a strong liquidity position, given the management's stance of low to moderate capex in the medium term towards brownfield expansion and captive power.

Exposure to Price and Forex Risks: Trident is vulnerable to cotton price volatility and foreign currency fluctuations, which can considerably affect its EBITDA margin in a competitive export market. Trident has built healthy supplier and customer relations, enabling it to revise prices periodically and safeguarding its EBITDA margin to a certain extent. Moreover, Trident partially hedges its forex exposure to mitigate the forex risk on export receivables.

Other Risks: The ratings are constrained by working capital-intensive operations (FY16: working capital cycle: 102 days; FY15: working capital cycle: 82 days) and cyclical nature associated with the textile industry. Domestic and global players from countries such as Bangladesh, China and Pakistan compete closely in the global home textile market, where suppliers have a limited bargaining power. Trident's global presence makes it vulnerable to an economic slowdown in these regions and could impact business flow from these regions.

RATING SENSITIVITIES

Negative: A sustained net leverage above 3.5x and/or deterioration in the liquidity position could lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1990 as Abhishek Industries Ltd, Trident is promoted by Mr 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). As on 31 March 2017, 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.

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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

Headquartered in Mumbai, Ind-Ra has six branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

[Primary Analyst](#)

Akash Krishnatry

Analyst

India Ratings and Research Pvt Ltd 601-9 Prakashdeep Building 7 Tolstoy Marg New Delhi 110001

+91 11 43567263

Secondary Analyst

Tanu Sharma

Associate Director

+91 11 43567243

Committee Chairperson

Sail Garg

Director

+91 1143567244

Media Relation

Mihir Mukherjee

Manager Corporate Communications and Investor Relations

+91 22 40356121
