TRIDENTGROUP™
Excellence in nature

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TRIDENT/CS/2022
March 8, 2022

The Manager Listing Department National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block Bandra Kurla Complex, Bandra (E) Mumbai - 400 051	The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street 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	November 3, 2020
Coupon Rate (%)	6.83 (biannually)
Maturity Date	November 3, 2024 (Last Tranche)
Size of Issue (Million)	INR 1,250/-
Rating/Outlook	IND AA/Positive
Rating Action	**Upgraded**

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**

(Hari Krishan)
Interim Company Secretary
ICSI Membership No.: A31976

Encl: as above

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Trident and its NCDs to Positive; Affirms 'IND AA'

07

MAR 2022

By Shradha Saraogi

India Ratings and Research (Ind-Ra) has revised Trident Limited's Outlook to Positive from Stable 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	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable

The Outlook revision reflects Ind-Ra's improved expectations for Trident's credit metrics over FY22-FY24, despite a higher cash outflow for capex and dividends as against the estimates in March 2021, supported by a strong operational performance amid a continued high demand over 9MFY22. Successful ramp-up of the company's additional yarn capacities (by around 12%), operational since July 2021, has enabled an improvement in the scale of operations and higher absolute EBITDA generation, leading to improved ROCE expectations for FY22. Also, the paper segment is likely to boost the margins over the medium term as schools and offices have opened up.

KEY RATING DRIVERS

Continued Deleveraging to Cushion Business Volatility: Given the better-than-expected EBITDA of INR11.6 billion in 9MFY22 (FY21: INR8.1 billion) amid a strong demand, Ind-Ra expects the company's net adjusted leverage (net adjusted debt/operating EBITDA) to be better than the previous expectation of 1.3x, at 0.93x in FY22 (9MFY21 trailing 12 months EBITDA basis: 0.99x; FY21: 1.81x; FY20: 1.99x). Ind-Ra expects the company's net leverage to remain below 1.00x in the medium term, despite large debt-led capex of INR12.23 over FY22-FY24, requiring an incremental long-term debt of INR9.17 billion (FY21: INR3.33 billion; FY20: INR1.64 billion) and consistent likely shareholder distributions of around INR7.2 billion (nil; INR2.6 billion), supported by increased EBITDA. Trident's net adjusted debt stood at INR16.4 billion at end-9MFYE22 (FY21: INR15.7 billion) while the short-term debt remained constant at INR12.3 billion (INR12.4 billion), led by healthy internal cash accruals and working capital management, despite the increased scale of operations.

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 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.

Healthy Operational Performance in FY22 and Beyond: Trident's revenues and EBITDA jumped 60% yoy and 105% yoy, respectively, in 9MFY22, led by enhanced yarn volumes, increased capacity utilisations of existing lines, and higher realisations and volumes amid a strong industry demand. Ind-Ra expects the company's revenue to increase over 45% yoy in FY22 (FY21: INR45.2 billion), owing to the strong performance in 9MFY22 and likely continuation in demand momentum over 4QFY22. Ind-Ra also expects the company's operating EBITDA to be robust in FY22 at around INR15 billion. The textile segment EBITDA is likely to increase to around INR13 billion in FY22 (FY21: INR6.98 billion; FY20: INR6.05 billion) while paper segment EBITDA to around INR2.1 billion (INR1.99 billion; INR3.29 billion). Ind-Ra expects Trident to continue maintaining a healthy EBITDA run-rate of INR12 billion-14 billion, supported by reasonable RoCE of 14%-15% (FY22 (estimate): 22%; FY21: 9.7%) in the near-to-medium term.

Sustained Improvement in Capacity Utilisation Broad Based: Trident's bed linen and terry towels' capacity utilisation continued to improve to 98% and 69%, respectively, in 3QFY22 (9MFY22: 91% and 66%, FY21: 80% and 53%). This can be ascribed to a shift towards Indian home textile players, in line with dual-sourcing plans of some key foreign players and an economic stimulus-led consumer demand uptick in the US and European markets. Ind-Ra also observed an increasing demand push due to increased stay-at-home working conditions and a high focus on hygiene during 9MFY22. Trident's paper segment utilisation also recovered to 90% in 3QFY22 (9MFY22: 91%, FY21: 79%). The segment is likely to boost margins over the medium term as schools and offices open up. The yarn segment utilisations also remained healthy, despite 23% increase in capacity since July 2021, at 91% in 3QFY22 (9MFY22: 90%; FY21: 81%), indicating a successful ramp-up, led by a strong captive yarn demand.

Healthy Business Profile: Trident has 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 9MFY22, home textile (bath & bed linen), yarn and paper contributed 61%, 26% and 14%, respectively (FY21: 65%; 20% and 16%), 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 INR12.23 billion over FY22-FY24, to be financed in a debt:equity ratio of 3:1, to increase the capacity of its yarns segment by 16%, sheeting segment by 60% and power by 28%. The enhanced capacity is likely to commence operations in phases up to September 2023 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 up to 7%, leading to an effective interest rate of approximately 1%. 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: The average utilisation of fund-based limits (INR18.0 billion; increased from INR15.9 billion since January 2022) was moderate at around 64% for the 12 months ended January 2022. Furthermore, the company had moderate free cash balances of INR1.1 billion at end-9MFY22 (FYE21: INR0.99 billion; FYE20: INR3.19 billion). The agency expects Trident's overall cost of debt to remain about 5% over the medium term, supported by the state interest rate subsidies applicable for its existing loans (67% as at end-December 2021) as well as additional loans (84%) for the ongoing capex. Ind-Ra expects Trident's interest coverage (operating EBITDA/interest expenses) to sustain above 10x over FY22-FY24 (FY21: 11.3x; FY20: 7.6x) on account of healthy EBITDA and a low average cost of debt (4.04% as of March 2021).

Ind-Ra expects Trident's debt service coverage ratio to be comfortable for its modest scheduled debt repayments of INR0.789 billion, INR0.507 billion and INR0.499 billion in FY22, FY23 and FY24, respectively. Ind-Ra expects the company's free cash flows to remain positive (FY21: INR1.03 billion; FY20: INR6.90 billion) in FY22, despite the ongoing large capex and likely increase in shareholder distribution, supported by its strong cash flow generation. 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 INR2.09 billion in FY21 (FY20: INR1.99 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 INR0.62 billion in FY21 (FY20: INR0.97 billion). Additionally, Trident benefits from an 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%, 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 margins benefit from its wheat straw-based plant as against wood-pulp based plants for other players. However, the margins contracted to 28.4% in FY21 and further to 23.7% in 9MFY22 due to a lower demand, lower realisations and increased input costs. The agency expects Trident's paper margins to remain healthy at 22%-27% over the medium term, driven by opening up offices and schools. The segmental margins remain exposed to lumpy capacity additions, creating demand-supply mismatches.

Increased Revenue Concentration: The customer concentration in revenues to Trident's top client increased to 18.2% in FY21 (FY20: 12.6%) while concentration to its top five clients increased to 41.5% (30.1%). Furthermore, the geographical concentration increased to the US market to 43.4% of the total sales in FY21 (FY20: 30.2%), indicating increased 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 changes 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 INR53 million in FY21 (FY20: gain of INR192 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 net leverage reducing below 1.0x and EBITDA earnings above INR13 billion, all on a sustained basis, 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, the net adjusted leverage remaining above 1.0x and/or EBITDA below INR13 billion, would lead to the Outlook being revised back to Stable.

ESG ISSUES

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Trident, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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 Barnala and Sanghera (Punjab) and in Budhni (Madhya Pradesh). On 31 December 2021, the facilities collectively held 589,248 spindles, 7,624 rotors, 672 looms (terry towel) and 500 looms (bed sheet). The company also has a paper manufacturing capacity of 175,000mtpa and a chemicals manufacturing capacity for sulphuric acid of 100,000mtpa. The operations are also supported by captive power plants have a total installed capacity of 49.4MW (meeting 40% of total power requirements). Trident is listed on National Stock Exchange and BSE Ltd and is headquartered in Ludhiana, Punjab.

FINANCIAL SUMMARY

Particulars	**9MFY22 (Unaudited, published)**	**FY21**	**FY20**
Net revenue (INR billion)	50.72	45.19	47.00
EBITDA (INR billion)	11.60	8.11	8.41
EBITDA margin (%)	22.87	17.94	17.89
EBITDA interest coverage (x)	17.25	11.26	7.59
Net adjusted leverage (x)	0.99*	1.81	1.99
Source: Company, Ind-Ra; *on an annualised basis			

RATING HISTORY

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

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.

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ABOUT INDIA RATINGS AND RESEARCH

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 and project finance companies.

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

India Ratings is a 100% owned subsidiary of the Fitch Group.

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

DISCLAIMER

Applicable Criteria

Evaluating Corporate Governance
Corporate Rating Methodology

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