December 13, 2022

Kitex Apparel Parks Limited: Long-term rating reaffirmed; Short-term rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Unallocated	2,000.00	0.00	-
Long-term – Term Loans	-	2,023.00	[ICRA]A(Stable); reaffirmed/ assigned
Short term – Non-fund based	-	11.00	[ICRA]A1; assigned
Total	**2,000.00**	**2,034.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings derive strengths from Kitex Apparel Parks Limited's (KAPL or the company) strong parentage as it is wholly-owned by the Kitex Group[1] (rated [ICRA]A+/Stable/[ICRA]A1[2]), along with strong operational, financial and management linkages between them. The Group is in the process of setting up integrated textile units in Telangana across two phases under KAPL, at a total cost of around Rs. 2,890 crore, including pre-operative expenses, to be funded largely by term loans from banks (70% of the project cost). The first phase is likely to be completed by December 2023 and the second phase by December 2024. There were no cost or time overruns as of November 2022 end. Given the high strategic importance of the project to the Group, as it would strengthen its market position in the infant wear segment and support its business diversification and growth targets, the Kitex Group is expected to extend continued financial support to KAPL, as and when required. Further, KAPL would benefit from the Group's established presence in the infant wear segment coupled with its long relationship with leading customers in the US infantwear market.

The above strengths are, however, constrained by the nascent stage of the large greenfield project with inherent time and cost overrun risks, considering the large scale of expansion. The ratings also consider the likely modest financial profile of the entity over the medium term, given the expected sizeable debt additions to fund the project, till the projects are commissioned and ramped up to the optimal levels of capacity utilisation. On a standalone basis also, while the profit margins, leverage and coverage indicators are expected to remain subdued in the initial years, the same would improve going forward with the successful ramp-up of company's operations. ICRA expects the parent companies, KGL and KCL, to support the company's cash flows, as and when required. KAPL revenues will be exposed to intense industry competition with its profit margins susceptible to volatility in raw material prices.

The Stable outlook reflects ICRA's expectation that the established market position of the Group would support KAPL in efficiently ramping up its operations to support debt servicing post commissioning of the textile units. ICRA also expects KAPL to receive continued operational and financial support from the parent Group.

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[1] Consolidated credit profile of Kitex Garments Limited and Kitex Childrenswear Limited. KAPL is owned by KGL and KCL in the ratio of 70:30.
2 Please visit [ICRA's website] for updated press releases on KCL and KGL

Key rating drivers and their description

Credit strengths

Strong parentage – KAPL is a part of the Kitex Group, which is among the largest manufacturers and exporters of infant wear from India, with a demonstrated track record of more than two decades. The Group's operating performance over the years has been supported by its presence in the niche segment of manufacturing garments for infants, promoters' extensive experience in the apparel industry and established relationships with leading international brands. The Group's operating performance has witnessed a healthy recovery in FY2022, given the strong growth in orders received from key customers. The operating performance is expected to remain healthy in FY2023 as well, given its comfortable order book position and expected healthy margins. The Group's capital structure and debt protection metrics are expected to weaken over the medium term on the back of the proposed investment. Nevertheless, cash flows and coverage metrics are expected to remain at adequate levels over the next three fiscals, with the minimum debt service coverage ratio (DSCR) expected to be at around 2.0 times. The earnings and liquidity position would be supported by the sizeable subsidies to be enjoyed from the state and the healthy margins expected from the new products as well. Further, KAPL's liquidity and debt servicing ability are expected to be aided by regular support from the Group - with sanctions from banks stipulating corporate guarantee for the debt from Kitex Garments Limited and Kitex Childrenswear Limited for the entire tenure of the loan.

High strategic importance of KAPL – The Group has proposed capacity expansion (more than double the existing capacity) through addition of integrated textile parks in Telangana under KAPL, with the units being added expected to improve the Group's product, customer and geographical diversification over the medium-to-long term. The Group plans to venture into new value-added product categories including infant socks, fleece garments, and premium T-shirts and innerwear for adults, which would reduce its dependence on the infant wear segment. Further, the additional capacity would aid the Group in reducing the concentration risks with specific set of customers and the US market as the company has plans to widen its client portfolio to include other major retailers in the US and EU markets. The entities are expected to enjoy strong synergies in procurement of raw materials and marketing of finished products. Thus, considering the business linkages and the strategic importance of KAPL to the Group, funding support is expected to be regular and timely and would be a key rating monitorable.

Credit challenges

Exposure to project and market risks owing to large proposed debt-funded greenfield capacity – KAPL has initiated a large textile greenfield capacity worth Rs. 2,890 crore in Telangana, to be completed by December 2024, for creation of capacities across the value chain. As the expansion would be largely funded through debt (70% by term loans and the remaining to be infused in the form of equity by the parent), the financial profile would remain modest till the project is completed and the capacity starts generating adequate earnings. Further, the project is in the nascent stage of development, which exposes its earnings to execution related time and cost overrun risks inherent to large projects. The company has incurred Rs. 275 crore till December 6, 2022 and there has been no time or cost overrun till then. There has been a slight increase in the project cost as compared to the initially envisaged project cost of Rs. 2,600 crore. However, this was due to non-inclusion of interest during construction (IDC) charges initially and no further cost overruns are expected. On a standalone basis also, while the profit margins, leverage and coverage indicators are expected to remain subdued in the initial years, the same would improve going forward with the successful ramp-up of company's operations. It is, however, noted that the parent companies, KGL and KCL, are expected to provide cashflow support, if required. The project would also be exposed to market risks upon commissioning, considering the large capacity being added. However, the Group's established presence is likely to support KAPL in securing timely orders.

Earnings would be exposed to fluctuations in raw material prices – Post commissioning of the facilities, KAPL's earnings would be exposed to fluctuations in raw material prices and exchange rates on the back of limited pricing flexibility in the business. Garment exporters face intense competition from other large textile exporters from India as well as from other low-cost garment exporting countries, which limits an entity's ability to improve prices and protect margins. While order-backed procurement limits price risk because of movement in yarn prices, as seen from the existing operations (of parent entities), its earnings would be exposed to the risks arising from any foreign exchange rates fluctuations. However, this risk can be mitigated by the company through hedging arrangements.

Liquidity position: Adequate

KAPL's liquidity position is expected to remain adequate, supported by the comfortable liquidity profile of its parent, with the Kitex Group's strong operational cash flows lending comfort to its ability to meet equity margin requirement and other fund-based support to KAPL, if required. KAPL has received sanctions from banks for the entire debt requirement, and the Group's financial flexibility with the banking system is expected to support KAPL in meeting any additional funding requirements during project execution. KAPL's liquidity profile over the medium term would be driven by timely commissioning of the project and its ability to successfully ramp up operations. It is also noted that the company is required to maintain one quarter's principal and interest amount due in Debt Service Reserve Account (DSRA). DSRA is required to be opened before one quarter of commencement of scheduled repayments of the term loan (towards the end of FY2026).

Rating sensitivities

Positive factors – Timely commissioning of the projects without any cost overrun and KAPL's ability to successfully ramp up operations of the new capacities, which would result in a sustained improvement in its credit profile, would be triggers for a rating upgrade. Further, any sustained improvement in the credit profile of the parent could be a positive rating trigger.

Negative factors – The ratings may be downgraded upon any material time or cost overrun in the commissioning of the projects or upon KAPL's inability to source new orders to effectively utilise the fresh capacities, which will adversely impact its credit profile. Further, any weakening of linkages with the parent, or lack of adequate support or deterioration in the credit profile of the parent could result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Apparels Rating approach- Implicit parent or Group support
Parent/Group support	Parent/Group Company: Kitex Group ICRA has arrived at the ratings using the parent-subsidiary rating model. The ratings factor in the expected regular funding support from the Kitex Group to KAPL, given the strong operational, financial and management linkages. In ICRA's opinion, high strategic importance of KAPL to the Group and a common name would persuade the Kitex Group to provide regular support to KAPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	KAPL's standalone credit profile, and then factoring in support from the Kitex Group

About the company

Kitex Apparel Parks Limited is a subsidiary of Kitex Garments Limited (KGL) and Kitex Childrenswear Limited (KCL) (70:30). The company was incorporated in 2021 and is managed by Mr. Sabu Jacob. The company is in the process of setting up two new manufacturing units in Telangana, which are expected to fully commercialise by December 2023 and December 2024, respectively. KGL, along with its group company, KCL (which holds a 15.9% stake in KGL), manufactures and exports infantwear to apparel retailers based out of the US and other developed markets. The companies belong to the larger AnnaKitex Group, which has diversified interests in aluminium vessels, home appliances, spice trading and textiles.

Key financial indicators

Kitex Group Consolidated	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Operating income	703.1	1162.8	601.1
PAT	83.0	167.6	84.5
OPBDIT/OI	22.5%	22.9%	22.0%
PAT/OI	11.8%	14.4%	14.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.3
Total debt/OPBDIT (times)	0.1	0.3	0.2
Interest coverage (times)	31.6	44.1	42.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: KAPL's standalone numbers are not available as the company is not operational yet

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of November 06, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					December 13, 2022	September 30, 2022	March 28, 2022	-	-
1	Unallocated Limits	Long Term	0.00	-	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	-
2	Term Loans	Long Term	2,023.00	0.0	**[ICRA]A (Stable)**	-	-	-	-
3	Credit Exposure Limits	Short-term	11.00	-	**[ICRA]A1**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Credit Exposure Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2022	NA	FY2034	2,023.00	[ICRA]A (Stable)
NA	Credit Exposure Limits	NA	NA	NA	11.00	[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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