

April 29, 2024

Kapoor Industries Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long-term fund-based term loan | 68.47 | 3.50 | [ICRA]AA-(Stable); reaffirmed |
| Long-term non-fund based | 0.25 | 0.25 | [ICRA]AA-(Stable); reaffirmed |
| Short-term fund-based | 320.00 | 320.00 | [ICRA]A1+; reaffirmed |
| Short-term non-fund based | 2.00 | 2.00 | [ICRA]A1+; reaffirmed |
| Total | 390.72 | 325.75 | |

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Kapoor Industries Limited (KIL) factors in KIL's strong business profile, characterised by its established position among the top exporters of terry towels from India to the US, catering to renowned global brands and value retailers, with a product profile focused on higher value addition in the towels segment. This coupled with regular, yet calibrated, capex undertaken over the years for capacity expansion, has helped KIL scale up its revenues, albeit a decline in FY2024, as well as improving operational efficiencies, facilitating an improvement in its operating margins along with volume-driven cost efficiencies. The ratings reaffirmation also factors in the healthy financial risk profile, led by sustained healthy operating performance and de-leveraging of its balance sheet with the company prepaying almost its entire term loans in FY2024. ICRA expects KIL's healthy performance to sustain over the near-to-medium term with the company diversifying to other geographies and improved demand from the US. ICRA notes the industry tailwinds in the form of new free trade agreements (FTAs) signed with the UAE and Australia and any favourable geo-political developments that may result in business getting re-routed from regions like China and Pakistan over the medium term. With the recent capacity enhancements and established job-work arrangements, the company has adequate surplus capacity to scale up operations over the medium term with limited capital outlays.

The ratings, however, continue to be constrained by competition from other domestic and international suppliers, and high product, customer and geographical concentration risks. Although the company has expanded its product portfolio to include other textile made-ups like bath mats, rugs, bath robes, cooking gloves etc., over the last few years, its dependence on terry towels remains high (~90% in FY2024). Reliance on exports also makes it vulnerable to demand trends in the key export markets and to foreign exchange rate fluctuation risk.

The Stable outlook on the long-term rating reflects ICRA's expectation of sustained growth, led by the company's operational strengths. ICRA expects KIL to maintain healthy debt coverage metrics, along with strong liquidity profile supported by surplus cash flow generation capacity of the business and no major debt-funded capital expenditure plan.

Key rating drivers and their description

Credit strengths

Established position in terry towel export industry – KIL is an established manufacturer and exporter of terry towels, featuring among India's top exporters to the US in the category. Besides sales of regular bath towels, KIL has positioned itself as a niche player with focus on fashion and kitchen towels, involving higher value addition with embroidery and use of jacquard looms

for designs and patterns. The incremental value addition is reflected in the higher average realisations enjoyed by the company, compared to other domestic players in the terry towel export business.

Long association with leading large format retailers in the US – KIL has an established association with leading large format retailers in the US. Backed by its ability to secure sizeable repeat orders from an established clientele and add new customers, KIL's sales grew at a healthy pace over the years albeit a decline in FY2024. KIL reported an operating income of Rs. 988 crore in FY2024 (as per provisional financials) against Rs. 1,130 crore in FY2023 and an operating margin of 25.1% in FY2024 compared to 21.0% in FY2023.

Healthy return metrics – KIL's demonstrated operational efficiencies, its emphasis on value addition, and benefits from the Government in the form of export incentives have supported its stable and healthy profitability over the years, as reflected in healthy operating margins. Despite industry-wide headwinds witnessed over the past few years (because of adverse movements in forex rates, transitory challenges posed by changes in export incentive schemes, increase in raw material [cotton] prices etc.), KIL's profit margins have remained healthy. In addition, KIL has been undertaking calibrated capex over the years for capacity expansion and to improve its operational efficiencies. The company is exploring opportunities for backward integration and diversification in other product categories, which will further support margins despite competition. These, in turn, have facilitated an improvement in its operating margins and consistently healthy ROCE for the company, which stood at an average of 28-29% during FY2022-2024. The RoCE is expected to remain healthy and remain above 20% in FY2025 and FY2026.

Healthy capitalisation and debt coverage indicators – KIL's healthy profits and cash accruals, together with limited debt repayments, continue to support healthy debt coverage indicators (DSCR of ~6.4 times in FY2024). Calibrated capex undertaken by KIL over the years together with low reliance on debt owing to healthy surplus cash accrual generation capacity of the business, has also helped it maintain comfortable leverage (Total Debt/ Tangible Net Worth of ~0.3 time as on March 31, 2024 and Debt/OPBDITA at 0.7 time for FY2024). The debt coverage indicators are expected to remain healthy, going forward as well with expected Debt to operating profits of 0.6-0.7 times and interest coverage of 14-16 times in FY2025 and FY2026.

Credit challenges

Exposed to product, geographical and customer concentration risks – While KIL has expanded its product portfolio to include other textile made-ups like bath mats, rugs, bath robes, cooking gloves etc., its dependence on terry towels remains high (accounted for more than ~90% of sales in FY2023 and 10M FY2024). Further it continues to derive most of its revenues from exports to the US (more than 90% of total exports), resulting in its vulnerability to demand trends in the key market. Besides, the company's customer concentration risk is high, with its top five customers accounting for close to 70-80% of its sales.

Profitability vulnerable to volatilities in cotton yarn prices and fluctuations in forex rates – KIL's profitability is vulnerable to volatility in cotton yarn prices, as there is a lag between order booking and deliveries. As KIL derives 95% of its revenues from exports (including gains from exchange rate differences and export incentives) with limited dependence on imported raw materials, its profitability is exposed to fluctuations in forex rates. However, the company's demonstrated track record of maintaining healthy profitability during the last few years, despite volatilities in cotton and cotton yarn prices, provides comfort. Further, KIL's policy of hedging ~65% of its forex exposure partially mitigates the forex risk.

Vulnerability of profitability to changes in export incentive structure – Like other textile exporters, KIL's profitability is supported by export incentives, which historically accounted for 40-50% of its operating profits. Besides, these incentives support growth in sales by making domestic textile manufacturers competitive in the global market. This exposes the exporters' profitability to any adverse change in the policies. In the recent years, there have been several revisions in the export incentive structure as well as rates, which resulted in lack of clarity for exporters while pricing the products. However, the Government's last year's announcement regarding the extension of the Rebate on State and Central Taxes and Levies (RoSCTL) benefits for two years till March 31, 2026 has provided much-needed clarity, supporting the exporters' ability to effectively price their products for the next two years.

Liquidity position: Strong

KIL's liquidity position is **strong**, supported by healthy internal accrual, free cash and bank balances, aggregating ~Rs.205 crore at the end of March 2024 (average of ~Rs.215 crore in the 6-month period ended in March 2024) and healthy cushion in the form of undrawn working capital limits of Rs. 90 crore as of March 2024. This apart, ICRA expects KIL's cash flow from operations as well as the accumulated liquid balance to be more than sufficient to fund its planned capex of Rs. 100 crore in FY2025 and Rs. 50 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade KIL's long-term rating if the company achieves a significant growth in scale, supported by increased business from a wider set of customers and geographies, and enhanced product portfolio, while maintaining strong profitability and an efficiently managed working capital cycle, which results in a sustained improvement in its capitalisation and coverage metrics.

Negative factors – Pressure on KIL's rating could arise if there is a sustained pressure on revenues and profitability and/ or elongation of working capital cycle, which constrains its return metrics and liquidity profile, resulting in consistently high utilisation of working capital limits. Besides, higher-than-anticipated dividends/ share buy-back, which together with sizeable capex results in increased dependence on external debt could also trigger a downgrade of ratings. Specific metrics, which could trigger ratings downgrade include an interest cover of less than 7.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Fabric Making |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | The ratings are based on the standalone business and financial risk profiles of KIL. |

About the company

Incorporated in 2012 by the Kapoor family and headed by Mr. P. K. Kapoor, Mr. Mohit Kapoor and Mr. Ashish Kapoor, KIL designs, manufactures and markets textile made-ups like terry towels, bath mats and rugs and bath robes. KIL is among the top exporters to the US in its product category with most of its revenues coming from exports, mainly to the US-based large format retailers. Its manufacturing units are located in Panipat (Haryana), with weaving capacity of ~20,000 tonnes per annum as of March 31, 2024. After the company's ongoing capacity expansion, the weaving capacity will increase to ~23,000 tonnes per annum by the end of FY2025.

Key financial indicators (audited)

| KIL – Standalone | FY2022 | FY2023 | FY2024* |
|--|---------|---------|---------|
| Operating income | 1,197.3 | 1,129.9 | 987.5 |
| PAT | 113.2 | 141.0 | 151.3 |
| OPBDIT/OI | 17.3% | 21.0% | 25.1% |
| PAT/OI | 9.5% | 12.5% | 15.3% |
| Total outside liabilities/Tangible net worth (times) | 1.3 | 0.5 | 0.4 |
| Total debt/OPBDIT (times) | 1.7 | 0.7 | 0.7 |
| Interest coverage (times) | 10.1 | 12.0 | 14.9 |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | | | |
|----------------------------------|------------|--------------------------|---------------------------------|---|-------------------------|-------------------------|--------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding (Rs. crore)* | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 |
| | | | | Apr 29, 2024 | - | Feb 01, 2023 | Jul 29, 2022 | Apr 5, 2021 |
| 1 Long-term fund-based term loan | Long term | 3.50 | 3.39 | [ICRA]AA-(Stable) | - | [ICRA]AA-(Stable) | [ICRA]A+(Positive) | [ICRA]A+(Stable) |
| 2 Long-term non-fund based | Long term | 0.25 | - | [ICRA]AA-(Stable) | - | [ICRA]AA-(Stable) | [ICRA]A+(Positive) | [ICRA]A+(Stable) |
| 3 Short-term fund-based | Short term | 320 | - | [ICRA]A1+ | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 Short-term non-fund based | Short term | 2.00 | - | [ICRA]A1+ | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

*Amount outstanding as on March 31, 2024

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--------------------------------|----------------------|
| Long-term fund-based term loan | Simple |
| Long-term non-fund based | Simple |
| Short-term fund-based | Simple |
| Short-term non-fund based | 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 | Long-term fund-based term loan | FY2020-FY2022 | 7.25% | FY2026 | 3.50 | [ICRA]AA-(Stable) |
| NA | Long-term non-fund based | - | - | - | 0.25 | [ICRA]AA-(Stable) |
| NA | Short-term fund-based | - | - | - | 320 | [ICRA]A1+ |
| NA | Short-term non-fund based | - | - | - | 2.00 | [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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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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