January 07, 2025

Kitex Apparel Parks Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	2,023.00	2,023.00	[ICRA]A-(Stable); reaffirmed and with change in outlook to Stable from Negative
Long-term/ Short-term Unallocated	11.00	11.00	[ICRA]A-(Stable) / [ICRA]A2+; Reaffirmed and with Change in Outlook to stable from Negative
Total	**2,034.00**	**2,034.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings for Kitex Apparel Parks Limited (KAPL), ICRA has assumed that the Kitex Group would provide implicit support. The ratings derive strengths from KAPL's strong parentage as it is wholly owned by the Kitex Group, along with strong operational, financial and management linkages between them.

The rating action considers the healthy performance of the Group in H1 FY2025 and expectation of sustained growth in revenues over the near-to-medium term, supported by favourable demand condition with increasing shift in procurement by large customers in the US and EU markets from China towards other markets, including India. The ratings also consider that the Phase-II expansion, which is expected to be completed in a phased manner by March 2027, is likely to support its cash flows and debt repayment obligations over the medium term.

The Group is in the process of setting up integrated textile units in Telangana, in two phases under KAPL, at an initial cost of ~Rs. 2,890 crore (including preoperative expenses), to be funded by term loans from banks (70%) and promoter contributions. There had been a change in scope towards automating seamless movement of goods across the units through conveyors, addition of power substations and other improvements, leading to an increase in the project cost of phase I by Rs. 261 crore to Rs. 1,751 crore. ICRA understands that the phase-II expansion of the project shall be completed in a phased manner by March 2027 (being revised by a year from initial estimates) while cost escalation in relation to Phase II is likely to be Rs. 200 crore. The project's phase I is likely to be completed by the end of March 2025 and the phase II by the end of March 2027. Large expansion exposes the Group's earnings to execution and demand risks, with the new capacities being sizeable than its existing operations. While the Group's debt protection metrics will be subdued in FY2025 (amid the ongoing debt-funded capex phase), the same will improve in the subsequent fiscals upon commencement of the phase I of operations from FY2026 and the phase II by FY2028. Receipt of Government subsidies after beginning of operations would support the Group's liquidity position to an extent (although timely receipt of the same remains a key monitorable).

The ratings continue to factor in the project execution and implementation risks, customer acquisition risk for the new project, existing high customer and geographical concentration risks, and inherently high working capital requirements in the business. Besides, the Group's operations are susceptible to external risk factors such as regulations and duty structures across the markets and fluctuations in foreign exchange rates and input prices, given the limited pricing power enjoyed by the Group.

Owing to the high strategic importance of the project to the Group, as it would strengthen its market position in the infantwear segment and support its business diversification and growth targets, the Kitex Group is expected to extend its financial support to KAPL, as and when required. On a standalone basis, while the profit margins, leverage and coverage indicators are expected to remain subdued in the initial years, the same would improve with the successful ramp-up of the company's operations. Further, KAPL would benefit from the Group's established presence in the infantwear segment coupled with its long relationships with leading customers in the US infantwear market.

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 operates in the niche segment of manufacturing garments for infants, where stringent quality requirements and relationships with customers pose as entry barriers. The promoter's extensive experience in the apparel industry and established relationships with leading international brands supported revenues and earnings over the years. While there has been a moderation in the Group's operating and financial performances in FY2023 and H1 FY2024, a modest recovery has been witnessed post H2 FY2024, and its liquidity position and debt protection metrics continue to remain adequate. The Group's capital structure and debt protection metrics are expected to weaken over the medium term on the back of the proposed investment. The earnings and the liquidity position would be supported by the sizeable subsidies to be enjoyed from the state government as well as the healthy margins expected from new products. Further, KAPL's liquidity and debt servicing ability are expected to be aided by regular support from the Group.

High strategic importance of KAPL – The Group is currently setting up additional capacities (more than double the existing capacity) in Telangana under KAPL, with the new units expected to improve the Group's product, customer and geographical diversification over the medium-to-long-term. Further, the additional capacity would aid the Group in reducing the concentration risks with specific 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 procuring raw materials and marketing 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

Exposed to project and market risks owing to large, proposed debt-funded greenfield capacity – KAPL is in the process of setting up a large, textile greenfield capacity in two phases for ~Rs. 3,350 crore (including expected cost escalation), to be funded by term loans from banks (70%) and promoter contributions. The company has incurred ~Rs. 1,337.8 crore till November 30, 2024. There has been a cost escalation due to increase in scope towards automating seamless movement of goods across the units through conveyors, addition of power substations and other improvements, leading to an increase in the project cost of phase I by Rs. 261 crore to Rs. 1,751 crore. Further, expansion of the phase II of the project is likely to be completed in a phased manner by the new COD of March 2027. Cost escalation in relation to the same is expected to be Rs. 200 crore. While the increase in scope would lead to additional outlay of funds, stretching the Group's credit metrics, the phased completion of its phase-II expansion by March 2027 will support its cashflows and repayment obligations over the medium term. The first phase is likely to be completed by the end of March 2025 and the second by the end of March 2027 (revised from the previous expected completion date by the end of March 2026). With the expansion largely funded by debt (70% by term loans and the remaining through promoter contributions), the financial profile would remain modest till the project is completed and would improve with the capacity, generating adequate earnings. 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. On a standalone basis as well, 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 the company's operations. It is, however, noted that the parent companies, KGL and KCL, are likely to provide cash flow support, if required.

Earnings would be exposed to fluctuations in raw material prices – Following the 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 fluctuation in foreign exchange rates. 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 liquidity profile of its parent, with the Kitex Group's strong operational cash flows lending comfort to its ability to meet equity margin requirements and other fund-based support to KAPL, if required. KAPL has received sanctions from banks for the entire debt requirement (except for the enhancement in scope of the project), 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 a Debt Service Reserve Account (DSRA). DSRA is required to be opened after completion of one year from date of commencement of commercial operations (DCCO) of both units (i.e., towards the end of FY2027).

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 ratings 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 in case of any deterioration in the credit profile of the parent or any weakening of linkages with the parent, or lack of adequate support or deterioration in the credit profile of the parent. Further any material time or cost overrun in the new project or KAPL's inability to source new orders to effectively utilise the fresh capacities (which will adversely impact its credit profile) could also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Apparels
Parent/Group support	Parent/Group Company: Kitex Group ICRA has arrived at the ratings assuming implicit support to be provided by the Kitex Group. 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	ICRA has considered KAPL's standalone credit profile, and implicit support from the Kitex Group.

About the company

KAPL is a subsidiary of KGL and 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 be fully commercialised by March 2025 and March 2027, respectively. KGL, along with its Group company, KCL (which holds a 15.9% stake in KGL), manufactures and exports infantwear to apparel retailers in the US and other developed markets.

Key financial indicators (audited/ provisional)

	Consolidated (Kitex Group)			Standalone (KAPL)	
	FY2023	FY2024	H1FY2025^	FY2023	FY2024
Operating income	727.7	840.9	613.3	0.0	0.0
PAT	67.2	88.1	96.4	(2.0)	(1.7)
OPBDIT/OI	17.7%	20.1%	23.0%	*	*
PAT/OI	9.2%	10.5%	15.7%	*	*
Total outside liabilities/Tangible net worth (times)	0.2	0.8	-	0.1	1.7
Total debt/OPBDIT (times)	0.4	4.4	-	*	*
Interest coverage (times)	20.7	14.4	18.8	(0.3)	(3.4)

*Source: Company, ICRA Research; ^Provisional numbers; *Not relevant; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Jan 7, 2025	Jul 5, 2024	Jun 30, 2023	December 13, 2022	September 30, 2022	March 28, 2022
1	**Term Loans**	Long Term	2,023.00	**[ICRA]A- (Stable)**	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	-	-
2	**Unallocated Limits**	Long Term/ Short-term	11.00	**[ICRA]A- (Stable)/ [ICRA]A2+**	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A1	-	-	-
3	**Credit Exposure Limits**	Short-term	0.00	-		-	[ICRA]A1	-	-
4	**Unallocated Limits**	Long Term	--	-		-	-	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Unallocated Limits	Not Applicable

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	FY2024	NA	FY2034	2,023.00	[ICRA]A-(Stable)
NA	Unallocated Limits	NA	NA	NA	11.00	[ICRA]A-(Stable)/ [ICRA]A2+

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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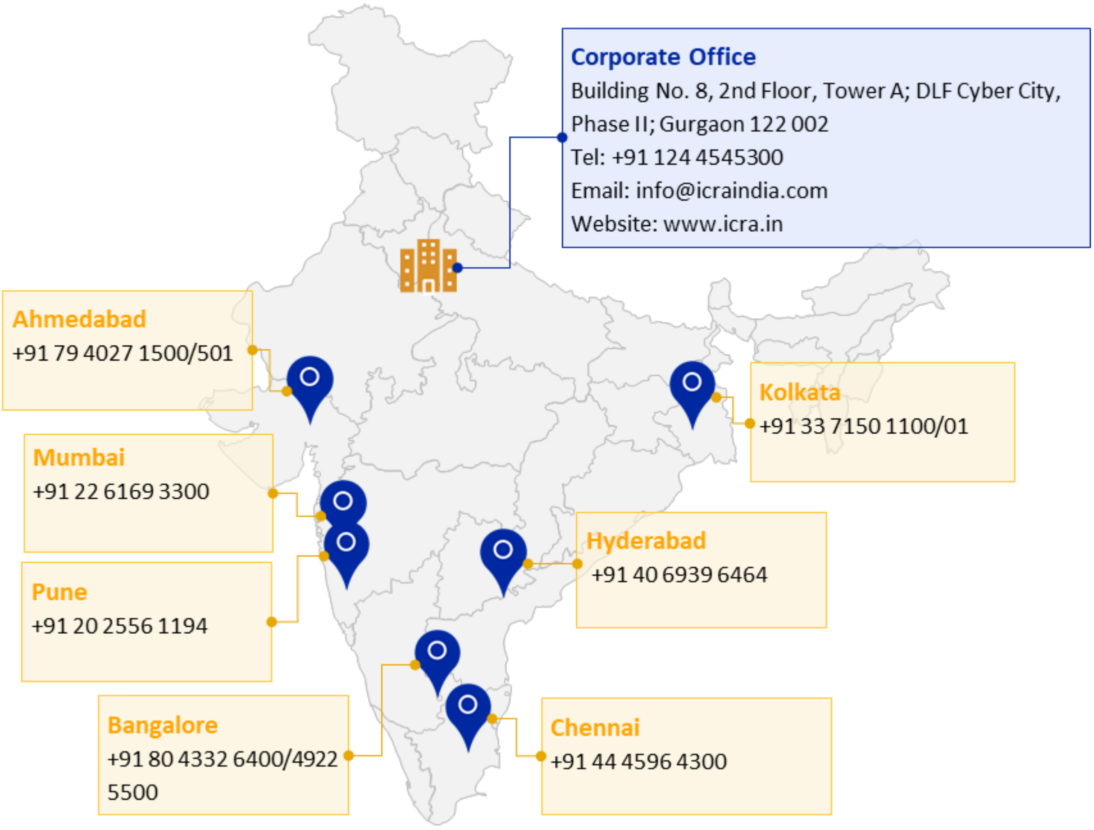

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