

September 03, 2025

S.P. Apparels Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Fund-based – Term loans	0.49	60.0	[ICRA]AA- (Stable); reaffirmed/ assigned for enhanced amount
Short-term Fund-based – Working capital facilities	255.00	300.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Short-term – Non-fund based	36.00	36.00	[ICRA]A1+; reaffirmed
Long-term/short-term Unallocated limits	3.01	-	-
Total	294.50	396.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation on the bank lines of S.P. Apparels Limited (SPAL) considers a healthy increase in its scale of operations in FY2025, aided by the acquisition of Young Brand Apparels Private Limited (YBAPL) and an expected improvement in the operational and financial performance over the medium term. This will be supported by SPAL's strong operational profile on the back of an established market position in the infantwear segment, long-standing relationships with large customers in the UK market, integrated manufacturing set-up and vast experience of the promoters. In June 2024, SPAL acquired YBAPL for Rs. 167.0 crore and bought a unit in Palladam (Tamil Nadu) from Bannari Amman Spinning Mills Limited (BASML) for Rs. 56.0 crore. The operating income of SPAL increased by around 30% on a YoY basis to Rs. 1,401.5 crore in FY2025, driven by incremental revenues from YBAPL and an increase in garment sales volumes. The operating profit margin was largely flat at around 14% in FY2025 and was affected by an increase in labour costs and other overheads. SPAL's revenue growth in FY2026 is expected to be driven by diversification into markets outside the US and ramp-up of capacities in India and Sri Lanka. The recently concluded FTA with the UK is likely to support an increase in volumes exported to the UK region over the medium to long term. SPAL's total debt increased to Rs. 380.8 crore in FY2025 compared with Rs. 203.4 crore in FY2024, towards funding the acquisition of YBAPL and an increase in the working capital intensity. The interest coverage ratio, while remaining healthy, moderated to 5.8 times in FY2025, and net debt/OPBDITA stood at 1.8 times in FY2025. The capital structure of SPAL remains supported by the strong net worth base built over the years. The leverage metrics is expected to improve going forward with improved earnings.

The ratings, however, remain constrained by the vulnerability of SPAL's revenues and earnings to demand conditions in the end-markets, adverse change in export incentive structure, tariffs, and high geographical and client concentration risks. Although revenue concentration remains with the top three customers contributing around 48% of SPAL's consolidated revenues, recurring orders and established relationships with its customers provide some comfort. Along with the client concentration risk, high receivables expose the company to the counterparty credit risk. At present, SPAL generates around 80% of its revenue from the export market, of which 25-30% of export revenues are generated from the US market and 65-70% from the UK and European markets. The US government in the current fiscal has imposed additional duties and penalties on apparel exported from India. Inability of the company to pass on the tariff hikes/ penalties imposed by the US government to its customers could impact its margins and remains a key monitorable. The nature of the business is inherently working capital intensive, driven by an extended inventory and receivable turnover period. The ratings have also remained constrained by the intense competition in the industry, limiting the pricing flexibility of industry participants.

The Stable outlook on the long-term rating reflects ICRA's expectations of a modest improvement in revenues of SPAL. Further, the outlook underlines the expectation that the entity's incremental capex will be funded in a way that allows it to maintain its debt protection metrics commensurate with the ratings.

Key rating drivers and their description

Credit strengths

Established market presence and integrated nature of operations – SPAL is a leading manufacturer and exporter of children's wear in India with a track record of more than three decades. It is one of the largest organised exporters in the segment. SPAL predominantly caters to the high-margin, value-added infantwear segment and exports to leading global retailers with established presence. SPAL's operations are integrated across the textile value chain from spinning to garmenting and further value additions through dyeing, printing, and embroidery. The company has expanded its backward process capacities and completed the consolidation and modernisation of its existing capacities over the years. Benefits from the recently concluded FTA with the UK, coupled with these operational strengths, are expected to partially offset the impact due to additional tariffs and penalties levied by the US government and support a modest revenue growth over the medium term.

Strong financial profile – SPAL witnessed a 30% YoY growth in its operating income to Rs. 1,401.5 crore in FY2025, supported by the acquisition of YBAPL and an increase in volumes exported around 7% on a YoY basis. The operating margin was around 14% in FY2025 and was impacted by increase in labour costs and other overheads. SPAL's financial profile remains strong, characterised by a conservative capital structure as reflected in the gearing ratio of 0.4 times in FY2025, supported by the strong net worth base built over the years. SPAL's total debt increased to Rs. 380.8 crore in FY2025 compared with Rs. 203.4 crore in FY2024, towards funding the acquisition of YBAPL and an increase in the working capital intensity. The interest coverage ratio, despite remaining at healthy levels, moderated to 5.8 times in FY2025, and net debt/OPBDITA stood at 1.8 times in FY2025. Nevertheless, the same is expected to improve over the medium term with the stabilisation of operations in the recently acquired entity and repayment of external borrowings.

Credit challenges

Customer concentration risk remains high and earnings vulnerable to end-user demand conditions and tariffs – SPAL's top three customers contributed around 48% of its revenues in FY2025, making the company's revenues vulnerable to the performance of these key customers and demand trends in crucial markets. Nevertheless, the risk is mitigated to an extent by the established relationships with its clientele, which foster repeat orders, the strong market position of its customers in key end-user markets, and the customer diversification from YBAPL's acquisition. While the acquisition of YBAPL has supported SPAL in expanding its product profile by diversifying into the innerwear segment and adding new customers in the US market, the entity continues to have a concentrated customer profile. Further, with the acquisition of YBAPL, 25-30% of SPAL's export revenues are generated from the US market and 65-70% from the UK and European markets. The US government in the current fiscal year has imposed additional duties and penalties on apparel exported from India. Inability of the company to pass on the tariff hikes/penalties imposed by the US government to its customers could impact its margins and remains a key monitorable. Besides, the company remains exposed to labour unrest and attrition risks, given the nature of operations within the apparel manufacturing industry.

Earnings exposure to fluctuations in input prices and foreign currency exchange rates – SPAL's earnings remain exposed to fluctuations in cotton and yarn prices and exchange rates on the back of limited pricing flexibility enjoyed with key customers. SPAL faces competition from other large textile exporters from India as well as from other low-cost garment exporting countries, limiting its ability to improve prices and margins to an extent. While order-backed procurement for the major portion of the stock held limits raw material price risk to an extent, earnings have been protected to a large extent against fluctuations in exchange rates through back-to-back hedging arrangements undertaken by SPAL, with around 80% of the receivables hedged in stages upon order confirmation from customers. Further, the company's operations are working capital intensive, driven by the elongated inventory as well as the receivable turnover period.

Environmental and social risks

Environmental risks: The sector remains exposed to the risks of elevated input costs owing to increased compliance expenses faced by suppliers amid tightening environmental regulations. The industry is exposed to environmental risks, primarily for water, land use and the impact of climate on production as well as post-consumer waste. While these risks have not resulted in material implications so far, policy actions for waste management, such as recycling textiles, could have cost implications for the companies. Any disruption in measures taken for appropriate treatment of wastewater/effluents could result in significant penalties while also causing a prolonged adverse impact on operations if authorities take any strict action.

Social risks: Being a labour-intensive segment, the entities operating in the garment sector are exposed to the risks of disruptions from inadequate human capital management, including safety and overall well-being. Besides, human rights issues and the inability to ensure diversity while providing equal opportunity could pose social risks for the company. Further, any significant increase in wage rates may affect the cost structure of apparel manufacturers, impacting the margins. A shortage of skilled workers could also affect operations/growth plans and remains a key concern. The measures implemented by the company towards employee welfare have not impacted the company's performance till date. Further, garment manufacturers are exposed to risks of conflicts with local communities. Entities are also exposed to major shifts in consumer preferences or developments, affecting discretionary consumer spending.

Liquidity position: Adequate

SPAL's liquidity position on a standalone basis is likely to remain adequate, supported by expected healthy net cash accruals of more than Rs. 100 crore in FY2026, free cash and liquid investment of Rs. 30.5 crore, and undrawn working capital limits of Rs. 94.1 crore as on March 31, 2025. While the free cash reserves of SPAL have reduced in FY2025 towards funding the acquisition of YBAPL, its healthy cash flow generated from operations and the buffer available in its working capital limits act as a cushion supporting its liquidity. SPAL on a consolidated basis is expected to incur capital expenditure of approximately Rs. 50 crore (including maintenance capex) in FY2026 and provide incremental loans for around Rs. 55.0 crore to its subsidiary in Sri Lanka. The company also has term debt repayment obligations of about Rs. 20.0 crore in FY2026.

Rating sensitivities

Positive factors – SPAL's long-term rating may be upgraded if it achieves significant growth in revenue and earnings and its business profile becomes more diversified with new customer additions across geographies while maintaining comfortable debt protection metrics and liquidity position. A specific credit metric that may lead to ratings upgrade includes return on capital employed (RoCE) improving over 25% on a sustained basis.

Negative factors – Pressure on SPAL's ratings may emerge if there is sustained pressure on revenue and earnings, or if there is an elongation in its working capital cycle, which would adversely impact its debt protection metrics and liquidity position. A specific credit metric leading to ratings downgrade includes DSCR remaining below 2.7 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries have been given in Annexure-II.

About the company

Promoted as a partnership firm by Mr. P. Sundararajan in 1989 and incorporated as a public limited company in November 2005, SPAL was listed on both the Bombay Stock Exchange and the National Stock Exchange in August 2016. SPAL is primarily involved in the manufacturing and exporting of infantwear and childrenswear to apparel retailers based in the UK and other developed markets. SPAL has manufacturing facilities in and around Tirupur (knitting, processing, garmenting, printing, and embroidery facilities) and Salem (spinning facility) in Tamil Nadu. It commenced operations for the domestic retail market in FY2007. Its retail division was hived off into a subsidiary company, S.P. Retail Ventures Limited, which markets apparel under the Crocodile brand. In FY2024, it incorporated a subsidiary in Sri Lanka, S.P. Apparels (International) Private Limited, and acquired YBAPL on June 21, 2024.

Key financial indicators (audited)

SPAL Consolidated	FY2024	FY2025
	Audited	Audited
Operating income	1,077.1	1,401.5
PAT	89.6	95.1
OPBDIT/OI	14.7%	13.9%
PAT/OI	8.3%	6.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	1.3	1.9
Interest coverage (times)	8.5	5.8

Source: Company, ICRA Research; 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 (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Sept 03, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	60.00	[ICRA]AA-(Stable)	Jul 29, 2024	[ICRA]AA-(Stable)	May 15, 2023	[ICRA]AA-(Stable)	May 11, 2022	[ICRA]AA-(Stable)
Fund-based working capital facilities	Short term	300.00	[ICRA]A1+	Jul 29, 2024	[ICRA]A1+	May 15, 2023	[ICRA]A1+	May 11, 2022	[ICRA]A1+
Non-fund Based Limits	Short term	36.00	[ICRA]A1+	Jul 29, 2024	[ICRA]A1+	May 15, 2023	-	May 11, 2022	[ICRA]A1+
Unallocated Limits	Long term/Short term	-	-	Jul 29, 2024	[ICRA]AA-(Stable)/[ICRA]A1+	May 15, 2023	[ICRA]AA-(Stable)/[ICRA]A1+	May 11, 2022	[ICRA]AA-(Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Term loan	Simple
Short -term – Fund-based working capital facilities	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	Term loans	FY2025	NA	FY2031	60.00	[ICRA]AA-(Stable)
NA	Fund-based working capital facilities	NA	NA	NA	300.00	[ICRA]A1+
NA	Short-term – non-fund based	NA	NA	NA	36.00	[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

Company name	SPAL Ownership	Consolidation approach
S.P. Apparels Limited	100.00% (rated entity)	Full Consolidation
Crocodile Products Private Limited	70.00%	Full Consolidation
S.P. Apparels (UK) (P) Limited	100.00%	Full Consolidation
S.P. Retail Ventures Limited	100.00%	Full consolidation
S.P. Apparels (International) Private Limited	100.00%	Full consolidation
Young Brand Apparel Private Limited	100.00%	Full consolidation

Source: Company and SPAL consolidated financial statements for FY2025

Note: ICRA has taken a consolidated view of the parent (SPAL) and its subsidiaries while assigning the ratings. The consolidated financials of above-mentioned entities capture the financials of their respective subsidiaries, i.e. indirect/ step-subsidiaries of SPAL (not listed in the table above).

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