

November 30, 2023^(Revised)

First Steps Babywear Private Limited: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based: Cash Credit	66.00	166.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Long Term - Fund Based: Term Loan	0.00	30.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Short Term - Fund Based	130.00	-	-
Long Term/Short Term – Unallocated	1.25	11.60	[ICRA]A+ (Stable)/ [ICRA]A1; upgraded from [ICRA]A (Stable)/ [ICRA]A2+
Short Term – Non-Fund Based	10.35	-	-
Total	207.60	207.60	

*Instrument details are provided in Annexure-I

Rationale

The ratings action favourably factors in the expectation of a healthy improvement in performance of the Group in the near-to-medium term on the back of improved earnings and ramp-up of the newly set up backward integration project under the subsidiary. The Group's revenue surged 24% to around Rs. 1,191 crore in FY2023. Besides, its operating margins rose to ~20% in FY2023 from 11% in FY2022 on account of lower raw material prices and favourable forex fluctuations. ICRA expects the Group to report continued healthy revenues and operating margins, driven by its established market position in the infantwear segment and strong relationship with renowned international brands, as reflected in recurring orders from its key customers over the years. Moreover, the Group is likely to benefit from the ramp-up of the backward integration project, helping it generate continued healthy earnings in the current fiscal as well. Also, the Group's presence in the niche infant-wear segment faces limited competition and is relatively less impacted by demand fluctuations witnessed in the apparel segment over the years. The ratings also consider the Group's healthy financial risk profile, characterised by a conservative capital structure in the past, with comfortable coverage metrics. It recorded an interest coverage of 9.6 times and TOL/TNW of 1.1 times in FY2023 along with an adequate liquidity position despite high working capital requirements in the business.

However, the ratings are constrained by the exposure of the Group to operational risks as the backward integration project has commenced recently and desired operational parameters are yet to be achieved. As the project was debt funded in nature, it is likely to result in moderation of capitalisation and coverage metrics compared to the level of FY2023. Nonetheless, it is likely to boost the Group's operational strengths (with expected improvement in the Group's operating profitability). Further, following a moderation in the current fiscal, the credit metrics are expected to start improving from FY2025 with the healthy ramp-up and scheduled repayments of term loans. The ratings also continue to factor in the Group's exposure 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 with established buyers.

The Stable outlook reflects ICRA's opinion that comfortable ramp-up of operations under the subsidiary will help the Group maintain comfortable credit metrics over the medium term despite some moderation in FY2024. Better operating efficiencies from backward integration are expected to improve the profitability, going forward.

Key rating drivers and their description

Credit strengths

Improvement in performance in FY2023; momentum likely to continue in the current fiscal – The Group’s revenues rose 24% to Rs. 1,191 crore in FY2023 from Rs. 960 crore in FY2022 on account of improvement in sales realisations. This coupled with an increase in the operating margins to ~20% led to an improvement in cash accruals. Moreover, the Group’s performance is expected to be healthy in FY2024, aided by an improvement in its scale of operations and operating profitability. The Group has already reported revenues of Rs. 560 crore in H1 FY2024 and expects to report revenues of more than Rs. 1,200 crore in the current fiscal.

Established track record of operations and long relationships with large international brands – FSBPL is among the large exporters of infant wear from India, with a demonstrated track record of operations of over a decade. FSBPL operates in the niche segment of manufacturing garments for infants in the age range of zero to three years, 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 a steady volume growth in the recent years. Further, the Group has recently commissioned its backward integrated knitting and processing unit, which is expected to improve value addition and operating efficiency in the current fiscal. Along with the company’s established customer base and diversification efforts, this is expected to keep the company’s profitability healthy in the medium term.

Healthy financial risk profile, characterised by a conservative capital structure, comfortable coverage metrics and an adequate liquidity position – Over the years, FSBPL’s capital structure has remained at comfortable levels, driven by steady earnings and no major debt-funded capital expenditure incurred. This is despite an increase in the short-term debt levels witnessed in the past two years to fund the rising working capital requirements. The net gearing and total outside liabilities to the tangible net worth stood at 0.6 times and 1.1 times, respectively in FY2023 (provisional numbers). However, with a sizeable debt-funded capex recently commissioned under the subsidiary, Colortone Textiles, the Group’s consolidated financial leverage has increased. Notwithstanding the increase in the financial leverage in the current fiscal, ICRA expects the same to start improving from FY2025, with the healthy ramp-up of the project. ICRA expects the company’s liquidity position to remain adequate as well.

Credit challenges

Competition from global players – FSBPL faces competition from other large exporters from India as well as from other low-cost garment exporting countries, which limits its ability to improve prices and margins to an extent. However, healthy order book position in the past few fiscals and established relationship with major customers limit this risk to an extent.

Ramp-up of new capacities in Colortone yet to be achieved – The Group has successfully commissioned its backward integrated knitting and processing unit in Chamarajnagar, Karnataka and the commercial production has started from February 2023. However, it is yet to achieve the desired operating parameters. Nevertheless, FSBPL’s existing track record in the industry and its established supplier network and customer base are likely to partially mitigate risks related to raw material procurement for Colortone Textiles.

Exposure to segmental, customer and geographical concentration risks – The Group derives its entire revenues from infant-wear products. Despite an increase in its scale of operations during the last five years, it continues to derive most of its revenues from exports to the US (more than 50% of total exports in FY2023 and H1 FY2024), resulting in its vulnerability to demand trends in the key market. Besides, FSBPL’s customer concentration risk is high, with the top five customers accounting for close to 70% of its sales in FY2023 and 5M FY2024.

Liquidity position: Adequate

FSBPL's liquidity position is expected to remain adequate, supported by the growth in earnings from operations, adequate unutilised lines of credit and free cash reserves enjoyed by the company. FSBPL's cash buffer, including unutilised lines and free cash reserves, stood at more than Rs. 180 crore as on September 30, 2023. Despite high working capital requirements, FSBPL's liquidity position is expected to remain adequate. The liquidity would be supported by steady cash accruals of more than Rs. 120 crore expected in FY2024 and the cash buffer held. The Group has repayment obligations of about Rs. 38 crore (consolidated) in FY2024, however, ICRA expects its cash accruals to be sufficient for servicing the debt repayment obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to achieve healthy utilisation of the recently installed backward integration facilities, leading to a sustained improvement in revenues and profitability. Specific metrics for ratings upgrade include DSCR of more than 2.5 times on a sustained basis.

Negative factors – Pressure on FSBPL's ratings may emerge if there is an adverse impact on its coverage metrics and liquidity position owing to a delay in ramp-up of backward integration or sustained pressure on its operating performance or any sharp elongation in its working capital cycle. Specific metrics for ratings downgrade include net debt/OPBDITA of more than 2.0 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	For arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of First Steps Babywear Private Limited and its three wholly-owned subsidiaries (details of which are given in Annexure-II).

About the company

First Steps Babywear Private Limited (FSBPL), a Bangalore-based garment exporter, incorporated in September 2001, manufactures and exports infant-wear, i.e., sleep suits, body suits, multi, semi fashion styles and accessories. At present, the manufacturing facilities are spread across six locations in Bangalore and Hosur, having a manufacturing capacity of 70 million pieces per annum. The company retails in the domestic market through its wholly owned subsidiary - Miniklub Retail Pvt Ltd. Miniklub operates through EBO's, Shop in shop counters in large format stores like Shoppers stop, Lifestye etc, Online platforms - Flipkart, Myntra and Amazon, Regional large formats and traditional distribution network. Exports are largely made to established retailers like Asda Stores Limited, Gerber Childrenwear LLC, The William Carter Company etc. Apart from the manufacturing facilities in Bangalore and Hosur, the company has established a unit in Sri Lanka for taking advantage of their favourable duty exemptions enjoyed with the EU market.

Further, to backward integrate into knitting and processing, FSBPL has incorporated Colortone Textiles Private Limited, which has recently commissioned its knitting and processing unit in Chamarajnagar, Karnataka. The commercial operations started from February 2023.

Key financial indicators (audited)

Consolidated	FY2022	FY2023*
Operating income	959.7	1,191.3
PAT	67.0	136.6
OPBDIT/OI	11.1%	19.6%
PAT/OI	7.0%	11.5%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	2.4	1.6
Interest coverage (times)	6.2	9.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
				Nov 30, 2023	Sep 26, 2022	Sep 30, 2021	May 1, 2020	Apr 14, 2020	
1	Cash Credit	Long Term	166.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
2	Term loan	Long Term	30.00	30.00	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
3	Fund-based limits	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Non-Fund based limits	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	-	-
5	Unallocated	Long Term/Short Term	11.60	-	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A2+	[ICRA]A (Stable) / [ICRA]A2+	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based - Cash Credit	Simple
Long Term - Fund Based- Term Loan	Simple
Long Term/Short Term – Unallocated	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	Cash Credit	NA	NA	NA	166.00	[ICRA]A+ (Stable)
NA	Term Loan	FY2022	NA	FY2027	30.00	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	11.60	[ICRA]A+ (Stable)/[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	FSBPL Ownership	Consolidation Approach
First Steps Babywear Lanka Private Limited	100.00%	Full Consolidation
Colortone Textiles Private Limited	100.00%	Full Consolidation
MiniKlub Retail Pvt. Ltd.	100.00%	Full Consolidation

Source: Company

Corrigendum

The company profile section has been updated.

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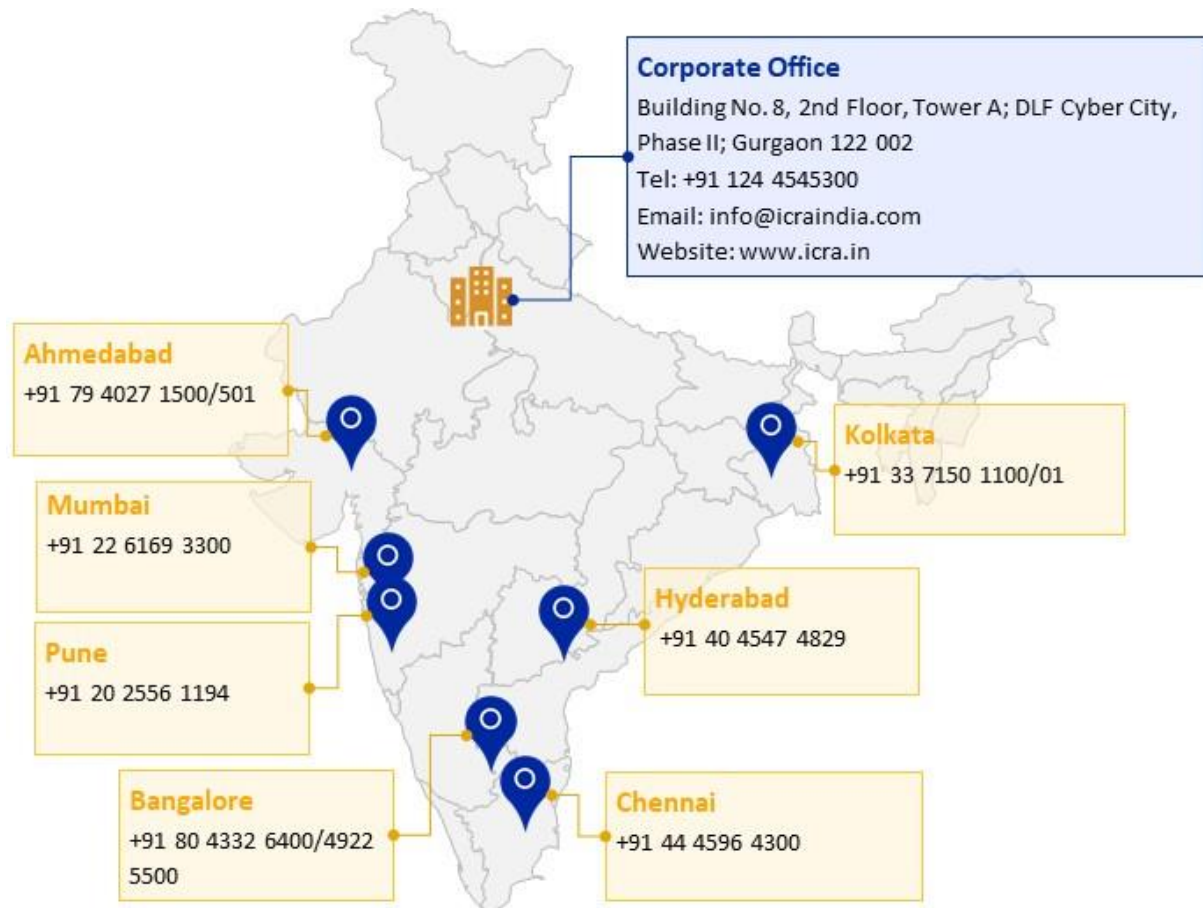
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