

January 31, 2025

## First Steps Babywear Private Limited: Long-term rating reaffirmed; short-term rating withdrawn

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term - Fund based/cash credit	166.00	140.00	[ICRA]A+ (Stable); reaffirmed
Long-term - Fund based/Term loan	30.00	30.00	[ICRA]A+ (Stable); reaffirmed
Long-term/Short-term - Unallocated	11.60	0.00	[ICRA]A+(Stable)/[ICRA]A1; long-term rating reaffirmed/short-term rating reaffirmed and withdrawn
<b>Total</b>	<b>207.60</b>	<b>170.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation on the bank lines of the Group considers an expected improvement in operational and financial performances over a medium term, supported by the established market position in the infant wear segment and strong relationships with renowned international brands, reflected in recurring orders from its key customers over the years. The rating also considers its integrated manufacturing facilities and the favourable demand condition with the shift in procurement by large customers in the US and the EU markets from China towards other markets, including India. While the consolidated revenues remained flat at Rs. 1,189 crore in FY2024, it grew by 14% (on an annualised basis) to Rs. 675.2 crore in H1 FY2025, supported by an increase in export volumes. Besides, with FY2024 being the first full year of commercial operations for the knitting and processing unit, consolidated operating margins moderated by 340 bps (on a YoY basis) to 16.5% in FY2024 due to increase in raw material and labour costs. The same further moderated further by 176 bps to 14.8% in H1 FY2025. However, with a likely increase in realisations in H2 FY2025, operating margins are likely to witness a modest recovery. The rating also considers the Group's healthy financial risk profile, characterised by a conservative capital structure, with comfortable coverage metrics. Despite coverage indicators moderating in recent past due to large debt-funded backward integrations, the interest coverage ratio stood healthy with an interest coverage of 4.2 in FY2024. ICRA notes that the entity has applied for various subsidies on capital investments done and timely receipt of these subsidies remains a key monitorable.

The rating is, however, constrained by vulnerability of the Group's profitability to volatility in raw material prices, demand trend in key export markets, exchange rate fluctuations and change in export incentive structure. Following the recent commissioning of fabric manufacturing facilities at Chamarajanagar, Karnataka, the Group is currently setting up another 2,000-sewing machine facility in Odisha at a total cost of Rs. 225 crore. The proposed debt-funded expansion exposes the Group to project and market risks, but its proven track record provides some comfort. The ratings also continue to factor in the segmental concentration risk with revenues derived from single infant/ kids segment and customer concentration risk with ~65% of revenues derived from top five customers and the geographical concentration risk. However, the long-standing relationships with repeat orders received from these customers provide some comfort. ICRA has withdrawn the short-term ratings assigned to the bank facilities of FSBPL at the request of the company in accordance with ICRA's policy on withdrawal.

The Stable outlook on the long-term rating factors in ICRA's expectations that the revenues and earnings of the company are likely to improve over the medium term supported by healthy demand. Further, the outlook underlines ICRA's expectations that the incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

## Key rating drivers and their description

### Credit strengths

**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 operational track record 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 to improve value addition and operating efficiency and FY2024 had been the first full year of operations. This, along with the company's established customer base and diversification efforts, are expected to support the company's profitability over the medium term.

**Integrated manufacturing facility** - The Group, following the recent investment in Colortone Textiles Private Limited by setting up knitting and processing facilities, has diversified its processes across the value chain. Currently its facilities are partly integrated with presence across the knitting, processing and garmenting segments, enhancing its operational efficiencies. Besides, strong operational infrastructure to meet stringent quality requirements has led to better margins for the Group. Integrated manufacturing facilities over the medium to long term are likely to support the profitability of the Group to an extent, while also meeting quality requirements of its end customers.

**Healthy financial risk profile, characterised by healthy coverage metrics and an adequate liquidity position** - Over the years, FSBPL's capital structure has remained at comfortable levels and driven by steady earnings. Despite the sizeable debt-funded capex recently commissioned under the subsidiary, Colortone Textiles, the Group's consolidated financial leverage has remained comfortable, supported by healthy accretion to retained earnings. The gearing and total outside liabilities to the tangible net worth stood at 0.7 times and 1.3times, respectively, in FY2024. Despite some moderation in coverage indicators, with the interest coverage ratio moderating to 4.2x in FY2024 compared to 9.3x in FY2023, the same remained healthy. Besides, the Group is also setting up a new manufacturing unit at Odisha under the name of Colortone Garments Pvt Ltd, at a total cost of Rs. 225 crore. While the debt-funded capex is likely to moderate the financial leverage in the near to medium term, however, healthy accretion to reserves and the company's deleveraging plans (over the near to medium term) provide some comfort. ICRA expects the liquidity position to remain healthy, supported by its free cash and liquid investment of ~Rs. 120 crore as on December 31, 2024.

### Credit challenges

**Vulnerable to volatile raw material prices, demand trends in key export markets and changes in export incentive structure** - Like other apparel exporters, the Group's profitability is susceptible to adverse movements in raw material prices and foreign exchange rates, given its export-driven revenue profile. Any volatility in exchange rates could adversely impact the Group's revenues and profitability as well as its competitiveness against other exporting countries. However, partial hedging via forward contracts mitigates the risk to an extent. Nevertheless, the Group faces concentration risk with its sales, which primarily take place in the US and UK regions (accounted for ~59% of the Group's total sales in FY2024). This makes the company's performance vulnerable to any adverse demand trend or development that affects consumer spending and preferences in the US and EU markets.

**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 and UK regions (~68% of total exports in FY2025 and 8M FY2025), resulting in its vulnerability to demand trends in these key markets. Besides, FSBPL's customer concentration risk is high, with the top five customers accounting for ~62% of its sales in FY2024 and ~64% in 8M FY2025.

**Exposure to project and market risks owing to large, proposed debt-funded capacity expansion** – After the recent commissioning of fabric manufacturing facilities at Chamarajanagar, Karnataka, the Group is currently setting up another 2,000-sewing machine facility in Odisha at a total cost of Rs. 225 crore under the name of Colortone Garments Private Limited. The project cost would be funded by 75% debt and 25% internal accruals/promoter contribution. The project is planned in two phases, first phase would be completed by January 2026 and the second phase by July 2026. The entity has acquired land at a cost ~Rs. 10 crore for a 99-years lease. The project is at a nascent stage of development, which exposes its earnings to execution related time and cost overruns inherent to large projects. 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 it in securing orders, thus providing some comfort.

### 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 liquid investments and free cash reserves, stood at ~Rs. 120 crore as on December 31, 2024. The average utilisation of its fund-based limits over the last 12-month period ending in December 2024 was around 61% of its sanctioned limits. The liquidity of the Group would be supported by steady cash accruals of ~Rs. 130 crore expected in FY2025, and the cash buffer held. The Group has repayment obligations of Rs. 63.1 crore and Rs.64.5 crore (consolidated; excluding lease liabilities) in FY2025 and FY2026, respectively. However, ICRA expects its cash accruals to be sufficient for servicing the debt repayment obligations.

### Rating sensitivities

**Positive factors** – The rating could be upgraded, if there is a healthy and sustained increase in the profitability with improvement in liquidity profile and debt protection metrics. Specific metrics for an upgrade include DSCR of more than 2.5 times on a sustained basis.

**Negative factors** – The rating could be downgraded, if there is a sustained pressure on the company’s operating performance or any large debt-funded capex/sharp elongation in working capital cycle, which would adversely impact the liquidity, and debt protection metrics. Specific metrics for a downgrade include total debt/OPBDITA of more than 2.5 times on a sustained basis.

### Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles Apparels</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
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 Bengaluru-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 for the Group are spread across six locations in Bengaluru and Hosur, with a capacity of 10.3 crore pieces per annum. Apart from exports, the company supplies to the domestic market through large retail outlets such as Shopper’s Stop, Lifestyle, Central, etc., and through the e-commerce platforms like Flipkart, Babyoye and Snapdeal, which are marketed under its own brand, MiniKlub. Exports are largely made to established retailers like Asda Stores Limited, Gerber

Childrenswear LLC, The William Carter Company, etc. Apart from the manufacturing facilities in Bengaluru and Hosur, the company has 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 commissioned its knitting and processing unit in Chamarajanagar, Karnataka. The commercial operations started from Q4 FY2023.

### Key financial indicators (audited)

FSBPL (Consolidated)	FY2023	FY2024	H1FY2025*
Operating income	1188.4	1189.5	675.2
PAT	136.3	94.7	49.7
OPBDIT/OI	19.9%	16.5%	14.8%
PAT/OI	11.5%	8.0%	7.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.3	-
Total debt/OPBDIT (times)	1.5	2.2	-
Interest coverage (times)	9.3	4.2	3.7

Source: Company, ICRA Research; \*provisional number; All ratios as per ICRA's calculations; Amounts 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

Current (FY2025)				Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	Jan 31, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	140.00	[ICRA]A+ (Stable)	30-Nov-2023	[ICRA]A+ (Stable)	26-Sep-2022	[ICRA]A (Stable)	30-Sep-2021	[ICRA]A (Stable)
Term loan	Long Term	30.00	[ICRA]A+ (Stable)	30-Nov-2023	[ICRA]A+ (Stable)	-	-	30-Sep-2021	[ICRA]A (Stable)
Fund-based limits	Short Term	-	-	-	-	26-Sep-2022	[ICRA]A2+	30-Sep-2021	[ICRA]A2+
Non-Fund based limits	Short Term	-	-	-	-	26-Sep-2022	[ICRA]A2+	30-Sep-2021	[ICRA]A2+
Unallocated	Long Term/Short Term	0.0	[ICRA]A+(Stable)/[ICRA]A1; long-term rating reaffirmed/short-term rating reaffirmed and withdrawn	30-Nov-2023	[ICRA]A+ (Stable) / [ICRA]A1	26-Sep-2022	[ICRA]A (Stable)/ [ICRA]A2+	30-Sep-2021	[ICRA]A (Stable)/ [ICRA]A2+

## 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	140.00	[ICRA]A+ (Stable)
NA	Term Loan	FY2022	NA	FY2027	30.00	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	0.00	[ICRA]A+(Stable)/[ICRA]A1; long-term rating reaffirmed/ short-term rating reaffirmed and withdrawn

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
Colortone Garments Private Limited	100.00%	Full Consolidation

Source: Company

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