

April 29, 2025

Kapoor Industries Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based term loan	3.50	2.80	[ICRA]AA-(Positive); reaffirmed and outlook revised from Stable
Long-term non-fund based	0.25	0.25	[ICRA]AA-(Positive); reaffirmed and outlook revised from Stable
Short-term fund-based	320.00	320.00	[ICRA]A1+; reaffirmed
Short-term non-fund based	2.00	2.00	[ICRA]A1+; reaffirmed
Total	325.75	325.05	

*Instrument details are provided in Annexure I

Rationale

The revision in the outlook on the long-term rating reflects ICRA's view that the credit profile of Kapoor Industries Limited (KIL) is expected to further strengthen, aided by its continuing position as a leading supplier of premium terry towels to renowned US retailers and industry-leading profitability metrics that have shown a structural improvement over the years. The company's established relationships with large and credentialed buyers, and operational strengths, including cost-efficient and highly automated operations, have helped it profitably scale up its business over the years. Since FY2019, the company's revenues, predominantly driven by exports to the US market, have increased at a compounded annual growth rate (CAGR) of ~13%, touching almost Rs. 1,300 crore in FY2025 (provisional financials). Over the same period, its OPBITDA increased by ~23%, while the net profits surged by ~30%. The company's OPBITDA margins, which used to be in the range of 14-15% until FY2020 have expanded since then and have remained over 20% over the past three years.

As business has expanded, the company has been incurring capital expenditure (capex) towards modernising the existing facilities (to support cost efficiencies) and expanding capacities (to support growth). Its capital allocation has been judicious, reflected in the company's Core Return on Capital Employed (RoCE) consistently rising from 23% in FY2019 to 40% in FY2025.

In the past five years, KIL reported aggregate cash flows from operations of Rs. 700 crore, nearly half of which were reinvested as capex. While the company availed long-term debt to fund the capex, it accounted for only ~30% of the aggregate capex incurred, indicating a prudent approach towards funding growth. As of March 31, 2025, the company only had limited external long-term debt left to be repaid with much of the external debt being in the form of working capital borrowings. Further, the company's liquidity position remains strong, reinforced by cash and liquid investments of Rs. 369 crore as of March 31, 2025.

KIL has remained focused on product premiumisation, which has allowed it to operate in a competitively less intense niche segment (i.e. at the premium end in the terry towels market). Further, the company has been focused primarily on the US market that is consumption-driven and has historically shown less volatility in real personal consumption expenditure compared to Europe and various emerging markets, including India. Lack of diversity in the product slate and geography, given the management's preference for a focused approach, has not caused any material earnings volatility over the past decade. While this has been a strength so far, lack of diversity in products and geographies could weigh on the credit profile if the end-user market matures, or consumer demand changes in unanticipated ways, or when competition intensifies with time. These risks constrain the company's long-term rating. Another concern is the high, although reducing, dependence of earnings on

export incentives. In FY2025, export incentives accounted for 37% of the company's OPBITDA, although this proportion was much lower than 54% in FY2019. The risk of withdrawal or decline in export incentives offered by the Government of India to exporters like KIL remains an important downside risk. The company's profitability also remains exposed to the risk of fluctuating cotton yarn prices (a key raw material) and currency.

The recent uncertainty surrounding the imposition of import tariffs by the US is another risk factor.. If the tariff is imposed at the level envisaged (i.e. 26%), it remains to be seen the impact it might have on demand, how the US importers respond to the tariff shock and the associated price inflation, and the extent to which exporters like KIL will be compelled to share the tariff burden. Nevertheless, given the likelihood of significantly higher tariffs imposed on competing nations, especially China, exporters from India like KIL appear to have a comparative advantage. This may present an opportunity to counteract the pricing pressure by expanding volumes through market share gains.

KIL is a privately held company and thus does not have legal or regulatory obligations to adopt the governance practices mandated for publicly held entities, including those concerning disclosures. Therefore, ICRA will remain dependent on the company for access to regular updates on performance. Nevertheless, the governance practices of KIL are assessed to be broadly in line with its other privately held peers.

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 operating margins 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 provides revenue visibility – 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. 1,287 crore in FY2025 (as per provisional financials) against Rs. 1,004 crore in FY2024 and an operating margin of 23.6% in FY2025 compared to 26.3% in FY2024.

Healthy return metrics, capitalisation and debt coverage indicators – 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. KIL has been undertaking calibrated capex over the years for capacity expansion and to improve its operational efficiencies. This has facilitated an improvement in its operating margins and consistently healthy ROCE for the company. Moreover, KIL's healthy profits and cash accruals, together with limited debt repayments, continue to support healthy debt coverage indicators (DSCR of ~5.9 times in FY2025). 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 helped it maintain comfortable leverage (Total Debt/ Tangible Net Worth of ~0.3 times as on March 31, 2025 and Debt/OPBDITA at 0.7 times for FY2025). 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 an interest coverage of 12-15 times in FY2026 and FY2027.

Credit challenges

Exposed to product, geographical and customer concentration risks – While KIL has expanded its product portfolio to include other textile made-ups like bathmats, rugs, bath robes, cooking gloves etc., its dependence on terry towels remains high (accounted for more than ~90% of sales in the past two fiscals). 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 US market. In this regard,

the recent uncertainty over the imposition of import tariffs by the US on KIL's business prospects remains a key monitorable. Besides, the company's customer concentration risk is high, with its top five customers accounting for close to 60-70% of its sales.

Profitability vulnerable to volatility 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 30-40% 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 extended the Rebate on State and Central Taxes and Levies (RoSCTL) benefits for two years till March 31, 2026, which provided the much-needed clarity, supporting the exporters' ability to effectively price their products for the next two years.

Liquidity position: Strong

KIL's liquidity position remains **strong**, characterised by cash and liquid investments of ~Rs. 369 crore as on March 31, 2025. ICRA expects KIL's cash flow from operations as well as accumulated liquid balance to be more than sufficient to meet margin requirements for its capex (~Rs. 110 crore in FY2026) as well as debt repayment obligations (~Rs. 1 crore in FY2026).

Rating sensitivities

Positive factors – ICRA could upgrade KIL's long-term rating if the company is able to sustain a healthy scale of operations and profitability over the medium term, while maintaining healthy return and coverage metrics. The impact of imposition of the US tariff on the company's business prospects would remain a monitorable.

Negative factors – Pressure on KIL's ratings could arise if there is sustained pressure on revenues and profitability and/ or an elongation of working capital cycle, resulting in a moderation in its return metrics and liquidity profile. Besides, higher-than-anticipated dividend/ share buyback, together with sizeable capex, results in increased dependence on external debt and could also exert pressure on the 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
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. Ashish Kapoor and Mr. Mohit 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, 2025. After the company's ongoing capacity expansion, the weaving capacity will increase to ~23,000 tonnes per annum by the end of FY2026.

Key financial indicators (audited)

Standalone	FY2024	FY2025*
Operating income	1,004.1	1,287.3
PAT	162.6	193.0
OPBDIT/OI	26.3%	23.6%
PAT/OI	16.2%	15.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.6	0.7
Interest coverage (times)	15.6	14.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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	Current rating (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Apr 29,2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Long-term fund-based term loan	Long term	2.80	[ICRA]AA- (Positive)	29-Apr-24	[ICRA]AA- (Stable)	-	-	1-Feb-23	[ICRA]AA- (Stable)
								29-Jul-22	[ICRA]A+ (Positive)
Long-term non-fund based	Long term	0.25	[ICRA]AA- (Positive)	29-Apr-24	[ICRA]AA- (Stable)	-	-	1-Feb-23	[ICRA]AA- (Stable)
								29-Jul-22	[ICRA]A+ (Positive)
Short-term fund-based	Short term	320.00	[ICRA]A1+	29-Apr-24	[ICRA]A1+	-	-	1-Feb-23	[ICRA]A1+
								29-Jul-22	[ICRA]A1+
Short-term non-fund based	Short term	2.00	[ICRA]A1+	29-Apr-24	[ICRA]A1+			1-Feb-23	[ICRA]A1+
								29-Jul-22	[ICRA]A1+

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	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based term loan	FY2020-FY2022	FY2026	2.80	[ICRA]AA-(Positive)
NA	Long-term non-fund based	-	-	0.25	[ICRA]AA-(Positive)
NA	Short-term fund-based	-	-	320.00	[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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