Kitex Garments Limited

Instrument	Amount (Rs Crore[1])	Rating Action
Term Loans	21.20 (revised from 43.02)	[ICRA]AA- (Stable); re-affirmed
ST – Fund based Facilities	117.00	[ICRA]A1+; re-affirmed
ST – Non Fund based Facilities	20.00	[ICRA]A1+; re-affirmed
LT /ST -Unallocated	21.82 (previously nil)	[ICRA]AA- (Stable)/[ICRA]A1+; assigned

ICRA has re-affirmed the long-term rating outstanding on the Rs. 21.20 Crores (revised from Rs 43.02 crore) term loans of Kitex Garments Limited ("KGL"/ "the Company)[2] at [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long term rating is 'stable'. ICRA has also re-affirmed the short term rating outstanding on the Rs. 117.00 crore fund based facilities and the Rs. 20.00 crore non fund based facilities of KGL at [ICRA]A1+ (pronounced ICRA A one plus). For the unallocated facilities totaling Rs. 21.82 crore, a rating of [ICRA]AA- or [ICRA]A1+ would apply contingent upon the tenor of the availed facility.

For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of KGL and Kitex Childrenswear Limited (hereafter referred as "the Group"), owing to common management and strong operational linkages.

The rating re-affirmation takes into account the rich experience of the promoter and the Group's strong track record in the infant wear industry which has ensured repeat orders from global infant wear retailers and wholesalers. Supported by strong demand from its customers - accelerated further by shifting of sourcing from other low cost countries to India owing to better compliance - the Group has recorded healthy growth in volumes in recent years (barring FY2016). Consequent scaling up of operations, coupled with increased efficiencies owing to investments in back processing, focused efforts to improve yields and favorable exchange rates have enabled the Group to record healthy profitability levels (consolidated RoCE in excess of 30%). As consequence of the same, the Group's consolidated financial profile is strong -characterized by healthy cash flows, large free cash balances (over Rs. 300 crore) and comfortable debt metrics adjusted for cash balances.

The ratings, however, also factor in the group's current high revenue concentration levels wherein top four customers contribute over 85% of revenues with the US geography alone contributing to a major portion of the topline (although sales to US are re-routed to global locations), which exposes revenues to order cancellation as well as geo-political risks. As seen in FY2016, scaling back of output to Jockey (owing to change in product mix) impacted revenue growth adversely. Therefore ability to diversify customer base would be a key sensitivity. While the group's close linkages with its customers lends revenue stability to an extent, ability to add new customers while sustaining steady state profit margins would be a key challenge over the medium term, especially considering the niche segment in which the group operates in. The ratings are also constrained by the economic exposure of the group's revenues and profitability to volatility in forex rates (although the group hedges a portion of its forex exposure to an extent). Any sharp and sustained appreciation in the rupee could moderate some of the gains witnessed in recent years.

While arriving at the ratings, ICRA also takes into account the Group's recent entry into the US retail market through a contract private label brand (Lamaze) as well as its own registered brand (Little Star). While the segment holds significant growth potential, ability of the Group to adapt to the dynamics of the new business while avoiding overlaps with its existing business / customer segments would remain key sensitivities towards improving the overall business profile.

Over the next three years, the group is implementing a cumulative capex of ~Rs. 75-100 crores towards automation and modernization of existing back processing facilities. While, roughly 75-80% of the same is being funded through bank debt, healthy accruals and large existing cash balances (in excess of Rs. 300

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

crores) are expected to help comfortably fund the remainder of the capex, besides supporting annual repayments of ~Rs. 25 crore. However, ability of the group to limit order volatility through customer diversification would be critical to sustain and improve the business risk profile. That said, given the relatively stable demand profile of the product segment coupled with the proposed new customer additions and entry into the US retail market, the group's long term revenue prospects appear to be healthy.

Company Profile
Kitex Garments Limited ("KGL" / "the Company") was incorporated in the year 1992 and is currently managed by Mr. Sabu Jacob. The Company is a part of the larger Anna-Kitex Group, which has diversified interests in aluminium vessels, home appliances, spice trading and textiles. KGL is primarily engaged in the manufacture and export of infant wear (less than 24 months) to apparel retailers based out of the US and UK. The Company has a fully integrated manufacturing facility at Kizhakkambalam (Kerala) with a facility to manufacture 2.7 lakh pieces per day and a fabric processing capacity of 42MTPD. KGL also supplies fabric to group entity Kitex Childrenswear Limited, which in turn holds 15.47% in the Company as on 30.06.2016. KGL is listed both in the NSE and the BSE.

Recent Results
During FY2016, KGL reported a net profit of Rs. 112.1 crore on an operating income of Rs. 546.5 crore as against a net profit of Rs. 98.7 crore on an operating income of Rs. 512.3 crore during FY2015. For the quarter ended June 30, 2016, KGL reported a net profit of Rs. 20.9 crore on an operating income of Rs. 119.3 crore, as against a net profit of Rs. 16.0 crore on an operating income of Rs.109.1 crore for the similar period ended June 30, 2015.

August 2016

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