

July 20, 2021

Kitex Childrenswear Limited: Update on Material Event

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Fund-based Limits – Working Capital Facilities	105.0	105.00	[ICRA]A1+
Non-Fund based Limits – Working Capital Facilities	6.00	6.00	[ICRA]A1+
Total	111.00	111.00	

Rationale

Material Event

Kitex Garments Limited (KGL), a part of the Kitex Group¹, through its corporate announcement on the stock exchanges dated July 13, 2021 has informed that it has agreed in principle to invest Rs. 1,000 crore to set up apparel manufacturing facilities in Telangana.

Impact of the Material Event

Given the expected strong demand from its major customers across the key markets in the coming fiscals, the Kitex Group has proposed to expand its capacity and has agreed in principle to invest Rs. 1,000 crore for establishing apparel manufacturing facilities in Telangana. The said investment is expected to strengthen the Group's market position in the infant wear segment and support its business diversification and growth targets. While the quantum of the said investment is relatively high in relation to the existing capacities held by the Group, the actual capital expenditure to be incurred post the expected subsidies from the state, phasing of the investment and the funding mix are uncertain with the Memorandum of Understanding (MoU) yet to be signed with the state. Any large debt-funded capital expenditure would adversely impact the Group's credit metrics and would be a key rating monitorable. The current financial profile of the Group remains supported by its debt-free status and cash reserves of around Rs. 175 crore as of March 2021. Further, the Group's operating performance is expected to register a healthy recovery in the current fiscal given the recovery in its order book position in the recent months, post demand and labour disruptions adversely impacted its revenues and earnings in FY2021. ICRA would continue to monitor the developments till better clarity emerges on the contours of the proposed investment and its impact on the credit profile of the Group and will take appropriate rating action as and when required.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, and Key financial indicators. [Click here](#)

¹ For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of KGL and Kitex Childrenswear Limited (KCL, hereafter collectively referred to as the Kitex Group), owing to the common management and strong operational linkages.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities operating in the Apparel Industry
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of KGL and Kitex Childrenswear Limited (KCL, hereafter collectively referred to as the Kitex Group), owing to the common management and strong operational linkages.

About the company

Kitex Childrenswear Limited was incorporated in 1991 and is 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. KCL, along with its group company (KGL, in which it holds a 15.9% stake), primarily manufactures and exports infantwear to apparel retailers based out of the US and other developed markets. The company has a manufacturing facility at Kizhakkambalam (Kerala) with a capacity to manufacture 3.5 lakh pieces per day. The Kitex Group had established a marketing and design unit based out of the US in FY2015 (as a joint venture between KGL and KCL) to diversify its business profile and reduce dependence on its key customers.

Key financial indicators

Kitex Group (Consolidated)	FY2019	FY2020
Operating Income (Rs. crore)	857.6	963.2
PAT (Rs. crore)	124.7	124.5
OPBDIT/OI (%)	27.6%	21.7%
PAT/OI (%)	14.5%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.7	0.7
Interest Coverage (times)	31.5	19.2

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 Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 20, 2021	November 11, 2020	October 04, 2019	December 31, 2018
1	Fund-based - working capital facilities	Short term	105.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-fund based working capital facilities	Short term	6.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits – Working Capital Facilities	Very simple
Non-Fund based Limits – Working Capital Facilities	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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Export packing credit and foreign bills discounting	NA	NA	NA	105.00	[ICRA]A1+
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	6.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kitex Herbals Limited	100%	Full Consolidation
Kitex Infantwear Limited	100%	Full Consolidation
Kitex Apparels Limited	100%	Full Consolidation
Kitex USA LLC (note 1)	50%	Equity method
Kitex Garments Limited	15.9%	Full Consolidation
Kitex Littlewear Limited (note 2)	-	Full Consolidation
Kitex Babywear Limited (note 2)	-	Full Consolidation
Kitex Socks Limited (note 2)	-	Full Consolidation
Kitex Packs Limited (note 2)	-	Full Consolidation
Kitex Knits Limited (note 2)	-	Full Consolidation
Kitex Kidswear Limited (note 2)	-	Full Consolidation

Note 1 - Kitex USA LLC is a 50:50 joint venture between KGL and KCL

Note 2 – These entities are subsidiaries of KGL

Source: company

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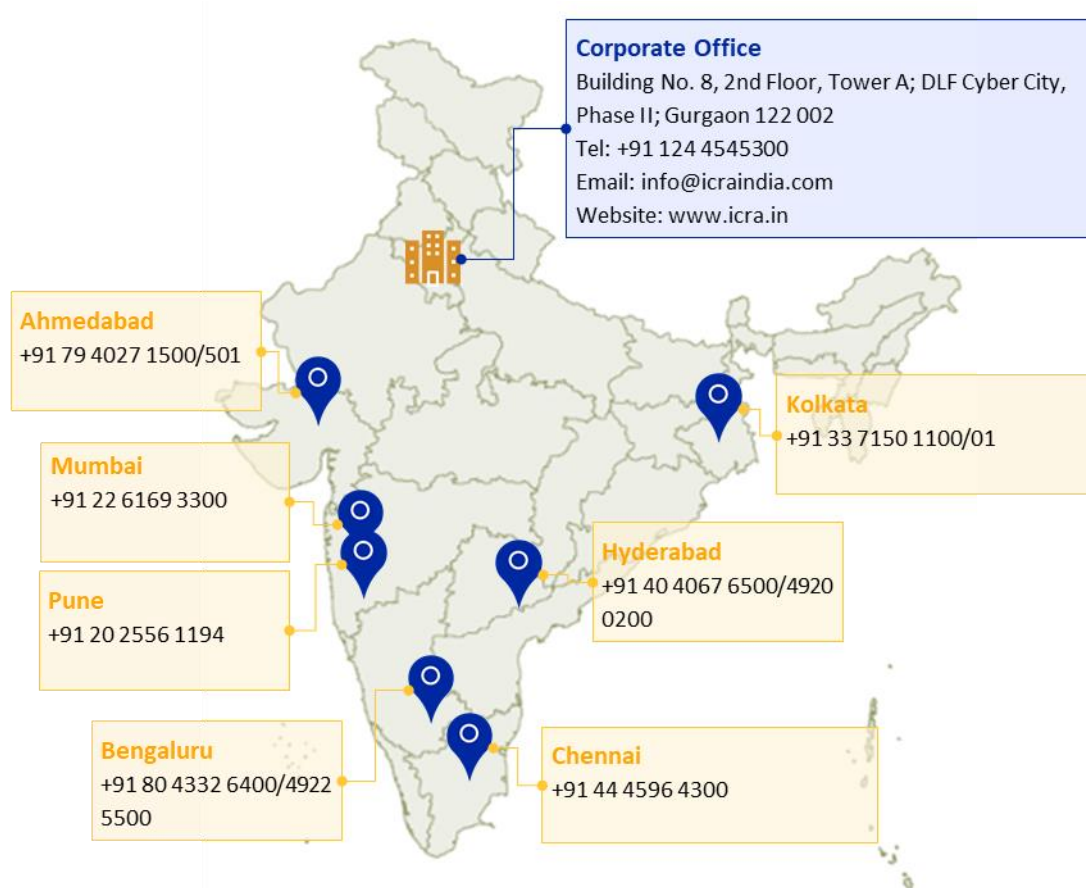


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Branches



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