

India Ratings Revises Outlook on Kitex Garments's Bank Loan Facilities to Negative; Affirms at 'IND A'; Rates Additional Limits

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India Ratings and Research (Ind-Ra) has revised the Outlook on Kitex Garments Ltd's (KGL) bank loan facilities to Negative from Stable while affirming the rating at 'IND A'. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Bank loan facilities	-	-	-	INR2,440	IND A/Negative/IND A1	Affirmed; Outlook revised to Negative
Bank loan facilities	-	-	-	INR1,039.8	IND A/Negative/IND A1	Assigned

Analytical Approach

Ind-Ra continues to fully consolidate (Ind-Ra's estimates) KGL, a group company, Kitex Childrenswear Limited (KCL; 'IND A'/Negative/'IND A1') and KGL's subsidiary, Kitex Apparel Parks Limited (KAPL; KGL holds a 70% stake and KCL holds 30%; 'IND A-'/'Negative/'IND A2+'), jointly referred to as the Kitex group to arrive at the ratings, as these entities operate under the same management and there are strong financial linkages among them.

Detailed Rationale of the Rating Action

The Negative Outlook reflects a likely delay in the ramp-up at the new Warangal (Telengana) facility, primarily due to the group's geographical concentration of clientele in the US amid the current high tariff imposition on India. This may result in elevated credit metrics, as the margins are likely to remain subdued, due to the partial absorption of US tariff-related costs, coupled with the recently completed large debt-funded capex. The agency expects the net leverage shall peak in FY26, followed by deleveraging FY27 onwards, supported by gradual repayments of its term loan.

The ratings reflect the Kitex group's leading position in infant garment export business and its strong clientele. Also, the group's scale of operations is likely to improve gradually as the Warangal unit commenced operations on 15 September 2025. Currently, the construction of the Sitarampur unit, under KAPL, has been deferred, due to the need to stabilise operations at the Warangal unit coupled with geopolitical uncertainties, leading to demand headwinds in export markets.

The group has initiated geographical diversification in the European and Australian markets and has already onboarded marquee clients such as Hennes & Mauritz, as a majority of its clientele currently remains concentrated in the US. In the near term, its revenue and margins are likely to be impacted by the group's continued dependence on the US market. The agency expects the EBIDTA margins to improve FY27 onwards, supported by a more diversified export client base along with steps taken to improve the group's domestic presence, leading to the gradual ramp-up of operations at the Warangal unit. The group's ability to successfully diversify its client base and ramp-up operations at the Warangal facility will remain a key rating monitorable.

However, the ratings are constrained by its exposure to raw material price volatility and foreign exchange risk.

List of Key Rating Drivers

Strengths

- Strong Business profile; operationalisation of Warangal unit
- Improvement in operational performance
- Strong product profile supports healthy margins; likely to be subdued in FY26 due to demand headwinds

Weaknesses

- Elevated credit metrics
- High customer and geographical concentration
- Raw material price volatility; forex risk

Detailed Description of Key Rating Drivers

Strong Business Profile; Operationalisation of Warangal Unit: The Kitex group has an operational track record of over three decades and is one of the leading exporters of infant garments in India. The company has established relationships with large reputed international retailers, such as William Carter, Gerber, and The Children's Place LLC, leading to repeat orders from these clients. Furthermore, the group added and are in the process of onboarding new major buyers from the European and Australian markets for FY26 which includes Hennes & Mauritz for the European region and FY27, providing a revenue visibility in the medium term from non-US markets. The newly established unit in Warangal with capacity of 160.35 million pieces under KAPL has commenced operations on 15 September 2025, providing low-cost labour and easy availability of the key raw material (raw cotton).

The capacity utilisation of the unit is likely to improve FY27 onwards. Additionally, to mitigate the demand risk, the capex of its Sitarampur project has been currently put on hold, due to geopolitical uncertainties, as well as the need to stabilise the Warangal unit. The construction of the Sitarampur unit is likely to commence from 1HFY27 and will be completed in 18–24 months. The Warangal facility shall largely cater to demand from new geographically diversified client base and the group's existing customers, providing a fair revenue visibility for the incremental capacities as well.

Improvement in Operational Performance: Despite lower realisations, the Kitex group's revenue grew to INR12,443 million in FY25 (FY24: INR8,273 million; FY23: INR6,930 million), aided by an increase in sales volumes. Ind-Ra expects the revenue to remain subdued in FY26 but continue to grow in the medium term, with a gradual increase in demand from the existing and new customers from diversified geographies, which will be supported by newly added capacity. In addition, the group is undertaking initiatives to expand its presence in the domestic market through the establishment of franchise-based retail stores and already launched its products across major e-commerce platforms. The group's revenue remained subdued in 2QFY26, due to a delayed ramp-up of the operations at the Warangal unit following demand headwinds amid geopolitical uncertainties. However, the agency expects an improvement 4QFY26 onwards, as orders from diversified geographies coupled with its planned expansion in the domestic market.

Strong Product Profile Supports Healthy Margins; likely to be Subdued in FY26 due to Demand Headwinds: The Kitex group operates in the infant garments segment, which has a niche market in the textile industry. Infant garments require more focus on the quality of products and are highly customised, resulting in high value addition, and hence, healthy operating margins. Furthermore, the demand for these products is less affected by industry downturns compared to that for adult garments, as it is relatively less discretionary. The group's EBITDA margins recovered to 20.3% in FY25 (FY24:18.7%; FY23: 13.5%), supported by a reduction in employee costs and other expenses with better absorption of fixed costs on higher sales volumes. The export incentives from the government of India also lend support to the margins.

The group's EBIDTA margins was adversely impacted in 1HFY26, due to the operationalisation of the Warangal unit and partially absorption of the US tariff impact. The agency expects the EBITDA margins to remain subdued in FY26, due to adversely impacted demand in the textile industry following geopolitical uncertainties amid partial tariff-related cost absorption. However, the margins are likely to improve FY27 onwards, supported by higher fixed cost absorption and likely stabilisation of export market demand, backed by geographical diversification efforts and the expansion of its footprint in domestic market. Additionally, KCL's merger of the textile business with KGL will help in improve its overall operational efficiency.

Elevated Credit Metrics: The group's gross interest coverage (operating EBITDA/gross interest expense) remained comfortable but reduced to 3x in 1HFY26 (FY25: 14.07x; FY24: 13.23x; FY23: 15.07x), due to increased interest costs. The net adjusted leverage (adjusted net debt including letter of credit (LC)/operating EBITDAR) remained at 4.23x in FY25 (FY24: 4.24x; FY23: net cash), due to an increased term loan drawdown for the capex for the Warangal Unit. Accordingly, Ind-Ra expects the net adjusted leverage to peak in FY26, due to the term loan drawdown and would gradually reduce FY27 onwards, supported by its loan repayment and a likely improvement in the absolute EBIDTA. Additionally, the large debt-funded capex for the Sitarampur unit has been deferred to 1HFY27, initiation of the capex with the funding mix of the project will remain key monitorable. Also, given the long repayment tenure of the term loans from FY26, Ind-Ra expects the group's cash inflows to support timely servicing of debt, with the debt service coverage ratio (DSCR) estimated to be more than 1x over the medium term.

The timely servicing of interest and principal will be a key rating monitorable. The project shall be eligible for the Telangana state government's incentives, which might offer additional liquidity cushion. However, the benefits have not been factored in for the purpose of the current assessment.

High Customer and Geographical Concentration: The company maintains longstanding relationships with large reputed international retailers such as William Carter, Walmart, Sam's Club, Garanimals, Amazon, Gerber and The Childrens Place LLC, leading to repeat orders, which support continued revenue visibility. The top five customers contribute almost 100% to the overall group revenue, although the concentration risk is somewhat mitigated by the fact that the counterparties have been associated with the company for more than 10 years. The group's sales to US-based customers accounted for about 64% of the total sales in FY25 (FY24: about 66%; FY23: about 70%), indicating high geographical concentration. Furthermore, considering the US is one of the largest importers of apparels and the nature of the industry, the Kitex group's concentration is likely to sustain over medium term. However, the company is expanding its presences in the European and Australian markets to mitigate this risk; the group's ability to diversify its geographical mix will be a key rating monitorable.

Raw Material Price Volatility; Forex Risk: The Kitex group's margins are vulnerable to fluctuations in price of raw materials; however, the company has been able to pass on the volatility to the customers, albeit with a time lag as the pricing of the order book is done on a quarterly basis. Furthermore, the company mainly deals in the exports of infant garments and is exposed to fluctuations in foreign exchange rates based on its receivables from customers, which are mainly US dollar denominated.

Liquidity

Adequate: The group's cash and cash equivalents stood at a moderate INR535 million at FYE25 (FYE24: INR725 million; FYE23: INR494 million). The average monthly maximum utilisation of its fund-based facilities was moderate at around 56% and that of the non-fund-based facilities was low at 32% for the 12 months ended September 2025. Furthermore, the group has a longer tenor of repayment obligations with a ballooning repayment structure, which would lead to lower financial burden in the initial stages of operations. The group's debt repayments will start from FY26, with an obligation of INR104 million during the year and INR730.10 million in FY27. The group intends to create a debt service reserve account for principal and interest repayment obligations of a quarter, which will provide support in case of any shortfall.

The group's net working capital cycle reduced but remained elongated at 169 days in FY25 (FY24: 192 days; FY23: 184 days) due to higher inventory days of 99 days (142 days; 120 days); receivable days at 114 days (123 days, 143 days) coupled with dip in creditor days 44 days (72 days; 79 days).

The group has tied up all long-term loans of INR24,885 million for the ongoing capex at KAPL (INR9,702 million availed until September 2025). The working capital limits for KAPL's Warangal project are sanctioned and the utilisation is expected to start by March 2026.

The group's combined free cash flow remained negative at INR4,101 million in FY25 (FY24: negative at INR6,776 million; FY23: negative INR683 million), due to the ongoing capex that started in FY22. Ind-Ra expects it to remain negative over the medium term, on account of the planned capex and the increasing working capital requirement at KAPL.

Rating Sensitivities

Positive: An improved geographical diversification, a successful ramp-up of the new asset's capacity with the EBITDA margins in line with the agency's expectation, and an improvement in the working capital cycle, leading to the comfortable liquidity buffer, visibility of the combined net adjusted leverage reducing below 3x, on a sustained basis, could lead to a positive rating action.

Negative: A lower-than-expected ramp-up of the new asset's capacity, leading to an impact on the EBITDA margins, and/or stretch in the working capital cycle with deterioration in the liquidity buffer, leading to the combined net adjusted leverage increasing above 3x, on a sustained basis, could lead to a negative rating action.

Any Other Information

Standalone Performance: KGL recorded revenue of INR9,828 million during FY25 (FY24: INR6,169 million), EBITDA margin of 20.34% (16.61%) and interest coverage of 14.26x (13.97x). In FY25, the net leverage (including LC acceptances) stood at 0.64x (FY24: 0.29x).

About the Company

KGL is flagship company of the Kitex group which was incorporated in 1992. The company manufactures infantwear garments with an installed capacity of 129.60 million pieces at its manufacturing facility at Kizhakkambalam unit in Kochi, Kerala. The company is listed in the National Stock Exchange and BSE Limited.

KCL, a part of the Kitex group and incorporated in 1997, is owned by Sabu M. Jacob, who also serves as the managing director of KGL. The company specialises in manufacturing babywear garments—such as bodysuits, rompers, bibs, sleepwear, burps, and training pants—and operates with an installed capacity of 129 million pieces at its facility in Kochi, Kerala. KAPL, a 70% subsidiary of KGL with the remaining 30% held by KCL, was established in 2021 to set up a greenfield integrated textile manufacturing project across two locations: Kakatiya Mega Textile Park in Warangal and Sitarampur Industrial Park in Ranga Reddy district, Telangana, each with a planned capacity of 160.35 million pieces. The Warangal unit commenced operations on 15 September 2025, while the commencement of the construction of the Sitarampur unit has been deferred.

Key Financial Indicators

Particulars (Combined)	1HFY26	FY25	FY24
Revenue (INR million)	4,777	12,443	8,273
EBITDA (INR million)	504	2,531	1,551
EBITDA margins (%)	10.56	20.34	18.75
Interest coverage (x)	3.00	14.07	13.23
Net leverage (x)	11.06*	4.23	4.24

Source: Company, Ind-Ra;

* on an annualised basis

Status of Non-Cooperation with previous rating agency

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	28 October 2024
Bank loan facilities	Long-term/ Short-term	INR3,479.80	IND A/Negative/IND A1	IND A/Stable/IND A1

Bank wise Facilities Details

The details are as reported by the issuer as on (27 Jan 2026)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Axis Bank Limited	Fund Based Working Capital Limit	250	IND A/Negative / IND A1
2	State Bank of India	Fund Based Working Capital Limit	1570	IND A/Negative / IND A1
3	HDFC Bank Limited	Fund-based working capital limits	500	IND A/Negative / IND A1
4	Union Bank of India	Fund-based working capital limits	750	IND A/Negative / IND A1
5	State Bank of India	Non-Fund Based Working Capital Limit	380	IND A/Negative / IND A1
6	Union Bank of India	Non-fund-based working capital limits	29.8	IND A/Negative / IND A1

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

Primary Analyst

Renuka Mahimkar

Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40001749

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Shradha Saraogi

Associate Director

+91 33 40302509

Media Relation

Ameya Bodkhe
Marketing Manager
+91 22 40356121

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Corporate Rating Methodology

Parent and Subsidiary Rating Linkage

Short-Term Ratings Criteria for Non-Financial Corporates

The Rating Process

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