

The Kitex Case Study a Realistic Wide-Angle Perspective on Industry, Politics and Investment Climate in Kerala

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Abstract—This paper examines the movement of Kitex Garments Ltd. from Kerala to Telangana, beyond the popular narrative of “bureaucratic high-handedness” and state hostility. It is hypothesised that Kitex’s strategy of utilization of its Corporate Social Responsibility (CSR) funds and agency into a political entity called ‘Twenty20’, was a strategy against local government stop memo due to environmental considerations. The global market shifts in the sector and rising cost of production had caused a 90% fall in stock prices of the company. The corporate management diverted the discussion from the performance and created a public narrative of political victimisation using state regulatory. This paper also looks into how industrial capital shifts due to inequity in application of government of India schemes, here PM MITRA, where land starved states like Kerala suffer. The factor of having a clean state of policies, as a newly formed state, also enabled the issue with its policies Telangana’s TS-iPASS enabling geographic arbitrage and low compliance pressures targeting socially and environmentally conscious regions for highly automated, low-cost mega clusters. The paper highlights the sequence of events and multiple factors that might have led to the economic decision than a dramatic sequel of events as it unfolded in political sphere.

Index Terms—Kitex Garments, industry, politics, investment climate, CSR, regulations, stock pressure, Kerala

narrative of how an industrialist who started and scaled in the state was driven out due to the anti-industry policies of the state. However, reductive explanations fail to capture the complex structural reality.

The relocation of KITEEX is far from a sudden reactionary outcome of a single event or a cause as it is portrayed. There are other dimensions to the story which the paper looks into that are basic reasons for such a corporate decision and specifically in this case.

- Local environmental issues due to industrial pollution.
- The misuse of CSR to control the regulator (municipal governance).
- Stock market pressures due to textile sector shifts at national level.
- Alternate avenues of resources, Land, Capital and policies, Textile Park scheme.

In this case the variables from 2011 to 2026 are taken and modelled to know how corporate management handle local regulatory issues using narrative management to distract from the real issue of investor falloff.

I. INTRODUCTION

In July 2021 Kitex Garments Ltd., abruptly announces that it cancelled its expansion projects in Kerala. This led to wide discussions and speculation of how mainstream political parties had chocked an industrialist out of the state, and this resonated well with the cliched narrative of Kerala being an industry unfriendly state. KITEEX then fed media on the dramatic turnaround of events where they were called in chartered flights to Telangana, with the cabinet offering them a red carpet welcome and a thereafter the announcement to shift the planned investment Telangana. Mainstream media went all over the

II. LITERATURE REVIEW

The movement of capital and its influences and triggers due to local and regional regulatory structures have been a subject of study in political and economic discourse and regional development models.

A. The “Race to the Bottom” vs. Place-Based Regulatory Thickness

Classic economic geography models by Tiebout (1956) and federalist theories that followed indicate that decentralized states engage in competitive regulatory undercutting which is termed as a “race to the bottom”. This is done to attract mobile capital by lowering labour and environmental standards. Evans

(1995) and Christopherson and Clark (2007) argue that subnational territories develop “regulatory thickness” which is a matrix of high labour literacy, mature civic institutional frameworks, and high socio-environmental consciousness.

In the current context it is well known that Kerala has long been characterized as a place of regulatory thickness which is driven by its high level of literacy, the high human development indices and deep-seated tradition of decentralized public vigilance (Ramachandran, 1997). The readings highlight that while strict institutional frameworks and compliances protect public interest, environment and minimum wages, they also create a high-cost threshold that traditional, polluting and low-margin, labour intensive manufacturing sectors (such as textiles) struggle to absorb over time. The growth and decline of textile industry in Kerala is a classic example of how the dichotomy works.

B. Corporate Patronage and Private Enclaves

The transition of corporate entities into regulatory / administrative agencies has many references in the literature. The concept of the “Company Town” in the literature references (Porteous 1970, Crawford 1995) outline how industrial firms created the workers paradise and thereby controlling all aspects of their living ie., housing, commerce, and law and order to insulate the business from labour unions and regulator controls.

Private governance enclaves or charter cities are today seen as a development tool or a way to avoid bureaucratic and political interference in business or urban communities. However such practices and their impact on society at large are challenged by many authors as being neo colonialist tendencies and against the principles of democracy and equity. Though the real estate developers and large corporates were instrumental in the chartered cities, the tendencies to undermine the local regulator through the CSR funding has also been observed. Rajak (2011) and Sklair (2001) point out that corporate charity is deployed to bypass or substitute regular state welfare schemes thereby establishing a parallel system of corporate patronage.

The specific phenomenon seen in the Kitex case, where a corporate body used its registered CSR outfit to directly involve in the political arena, contest democratic elections and control the

municipal/regulatory office, is a unique and unprecedented.

C. Stock Pressures and Narrative Displacements

Management accountability is directly connected to stock market perceptions and shareholder scrutiny (Froud et al., 2006), According to Froud, in todays world of financialization, Managements resort to narratives to boost share values but these stories often do not represent the actual financial status or operating outcomes. When external macroeconomic factors squeeze operating margins, leadership faces existential crisis from stock markets. Harvey (1982) in his theory of the “spatial fix” how geographical expansions and investments in long-term built environments are done to resolve internal crises of accumulation and falling profitability.

It is also argued that corporate managements frequently utilize narrative displacements using their PR agencies and activities to reframe internal structural failures and/or external market downturns as local political or regulatory victimisation. This helps them manoeuvre successfully their public relations crises and sustain share prices during volatile transitions.

III. CHRONOLOGY OF EVENTS AND TRIGGERS

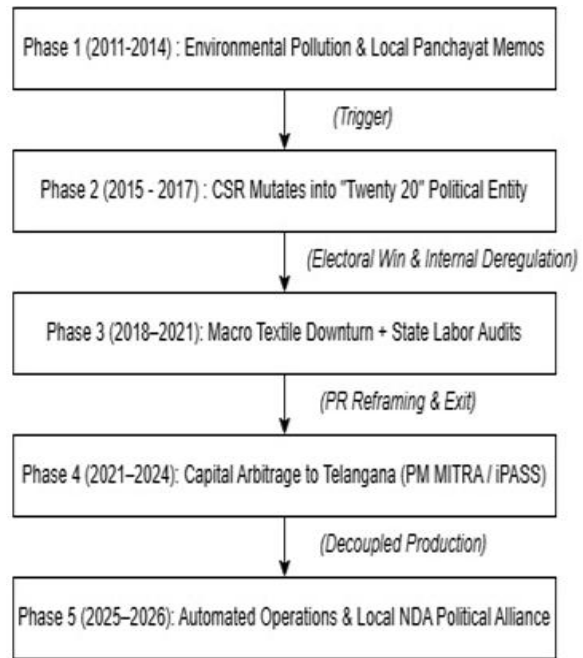


Fig. 1. Chronology of events and triggers

A. Period 2011–2014 – Environmental Issues and Regulatory Intervention

Subsequent to the death of M.C. Jacob in 2011 (group founder), Sabu M. Jacob took over the management of the company. The firm aggressively grew its infant wear product line to serve US retail chains. This increase in volume led to major environmental issues in the locality. In 2012, Kizhakkambalam Gram Panchayat witnessed continuous protests against the company's bleaching and dyeing units due to groundwater contamination as a consequence of inadequate effluent treatment. During the initial period Kitex Garments Ltd. (NSE: KITEX) was a small cap stock trading around ₹20 to ₹35. The increase in global export volumes outplayed the local issues and a strong rally in the market pushed the stock above ₹500 by late 2014 which led to stricter institutional investor scrutiny regarding its long-term scalability.

It was then the issues caught more attention regarding environment and the Kizhakkambalam Gram Panchayat issued a stop memo to Kitex over environmental non-compliance in the wake of the public protest.

B. 2015–2017 – Political Subversion and Parallel Governance

The public backed by the major political coalitions in Kerala, both LDF and UDF confronted the company and its environmental policies. Kitex did a political metamorphosis of its corporate social responsibility arm called Twenty20 Kizhakkambalam Association (originally registered under Schedule VII of the Companies Act 2013) into an electoral political party in 2015.

The local body elections in 2015 witnessed Twenty20 winning 17 out of 19 seats in the Kizhakkambalam Gram Panchayat thus undermining the very regulatory oversight that had put restriction to their environmental polluting activities.

Kitex established “Food Security Markets” offering heavily subsidized supplies only to Twenty20 cardholders and created corporate funded housing and infrastructure maintenance. This company town strategy quietly slipped the democratic citizen rights into a corporate Subsistence / dependency model. The production facilities were relieved of their environmental challenges. Kitex's financial performance peaked during the period with narratives and stories on a corporate run haven, CSR and also the

export orders, driving its share price to an all-time intraday high of ₹995.99 in June 2015.

A bolt from blue struck Kitex when there was a sudden loss of business from Jockey, one of its prime clients. The 50% reduction of business from jockey impacted market sentiment severely. This drop was due to the shifting of Jockey toward synthetic materials. Kitex was optimized strictly for 100% cotton manufacturing and was unable to absorb the change immediately. The jockey effect was not a client relationship gone bad but it was an industry trend in adult apparel, athleisure.

C. 2018–2021 – Macroeconomic Factors and the Narrative Pivot

Between 2018 and 2020 the Indian textile exports faced a backlash which was driven by policy transitions (like introduction of GST, Incentive reduction for exports) changing geo political dynamics, which led to escalating raw cotton prices and stiff competition from low-tariff nations like Bangladesh and Vietnam. The bankruptcy of the major US client (Toys “R” Us) significantly affected the profit margins of KITEEX as it relied on the infant garment market heavily.

This was followed by the supply chain disruptions due to COVID-19 pandemic. Kitex's stock experienced a 90% fall and reached ₹86.49 in March 2020, which triggered a demand from shareholders for structural cost-cutting and geographic diversification.

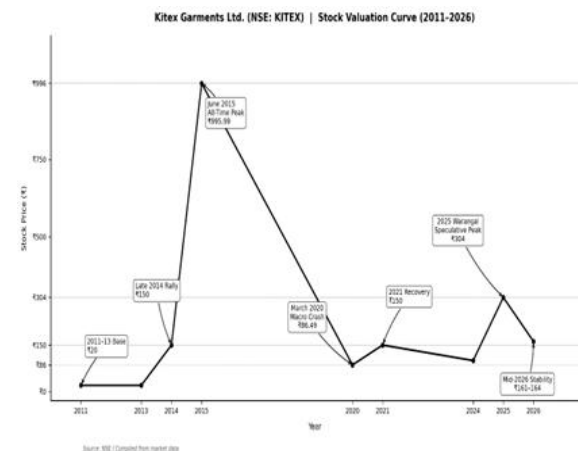


Fig. 2. Kitex Garments Ltd. (NSE: KITEEX) Stock Valuation Curve (2011–2026)

Meanwhile Twenty20 tried to expand its regional influence in the December 2020 elections, capturing three adjacent panchayats. In June 2021, based on the

grievances by the unions, regarding the non-payment of minimum wages, unhygienic living conditions and environmental issues, state regulatory bodies conducted inspection raids multiple times within a months' time.

The company at that juncture faced a double-edged situation of heavy margin compression due to market forces and strict statutory/compliance enforcements, leading the management to initiate a strategic PR pivot. By the end of June 2021, Sabu Jacob announced the withdrawal of a proposed ₹3,500 crore expansion project in Kerala. The decision to withdraw the investment proposal was entirely attributed to the state led and political harassment. The management succeeded in diverting the shareholders attention from falling operational margins and market challenges to a political and regulatory hostility.

D. 2021–2024 – National Policy and Capital Migration

Aggressive efforts were made by Indian states to attract capital leveraging the Central Government's PM MITRA (Mega Integrated Textile Region and Apparel) framework once the scheme was announced in 2021. Kerala did not reflect in the 7 sites proposed nor did it make an attempt to apply. The reason being that the scheme like many of the other central schemes required 1,000 acres of contiguous, encumbrance-free land to be earmarked, which is near to impossible in a Kerala context. The Government of Telangana capitalized on the fact that one of the approved sites being Warangal, and the KITEX needed a relocation for economic and commercial reasons. The much-publicised event of a state-backed private jet flying the Kitex executive team to Hyderabad and Kitex finalising an agreement committing capital investment in Telangana followed.

Telangana does have advantages compared to Kerala in terms of thousands of acres of cheaper, consolidated land at the Kakatiya Mega Textile Park (KMTP) in Warangal, direct access to large cotton-producing regions, subsidized power, and non-unionized labour. An interesting thing to note is that majority of the workforce for KITEX was from the eastern part of India and Telangana offered them a closer to home work place. The Telangana's TS-iPASS single-window clearance system bypassed all regulatory delays. The Capital markets did respond positively to

this geographical expansion and the share prices moved into the ₹150–₹170 range by late 2021.

E. 2025 – Production and Political Realignment

By end 2024, commercial manufacturing commenced at the fully automated Warangal cluster in Telangana. Kitex looks to diversify its product line into synthetic fibres and adult apparel, which was critical from a market point of view. The stock prices responded to a high i.e., around ₹300 in mid-2025 under a speculative ride but stabilized around ₹160 by mid-2026.

IV. INFERENCES AND KEY PERSPECTIVES

A. The Corporate Subversion of a Decentralized Governance System

The Kitex case is a unique evolution of a hybrid corporate political activity where the corporate entity engaged in direct electoral intervention to capture municipal offices rather than indirectly lobbying or campaign financing etc. Leveraging CSR budget KITEX established a corporate-funded welfare state that bypassed local democratic checks and balances. This strategy is a blueprint for bypassing local environmental regulations by replacing democratic political consciousness with private corporate paternalism.

B. Narrative Management as an Alternative to Shareholder Protection

The timeline of share prices reveals that Kitex's public confrontation with the state government occurred alongside a 90% fall in share prices driven mostly by macroeconomic factors. The state inspection raids during the period provided the management with an opportunity to generate a convenient corporate narrative. The structural exit from the state caused by high labour costs and land scarcity was represented as a fight against anti-business politics, enabling the company preserve executive credibility and garner the stakeholder support during a risky geographical shifting.

C. Spatial Arbitrage within Subnational Systems

This transition clearly highlights how industrial capital exploits subnational variations in regulatory enforcement, resource availability etc. Kerala as a region developed rigorous labour laws, environmental

activism, and decentralized public oversight due to which the low margin manufacturing industries face operational limits. It can be seen that Capital generally resolves this constraint by migrating to states that offer resources (large parcels of land), centralized single-window deregulation (like TS-iPASS) and subsidized mega-parks (like PM MITRA), turning National schemes into tools for corporate cost optimization. This also opens up a serious thought on the equity for such regions with limited resources like land parcels and unique ecological and HDI indices while formulating the National level schemes.

V. CONCLUSION

The movement of Kitex Garments Ltd. from Kerala to Telangana is a model of modern capital mobility within federated democracies. Beyond a political dispute, the relocation happened due to a combination of factors like local environmental issues, stock market pressures, parallel corporate governance and competitive but skewed interstate policy.

When market shifts forced an asset relocation, management used an exaggerated narrative of political victimisation to sustain investor confidence during an inevitable transition. It is quite evident that as long as subnational states compete within a federal system, mobile capital will always look to exploit the structural differences to relocate production to a high-subsidy, low-compliance, and automated industrial zones.

On conclusion the key areas to be addressed are policy level equity for all regions while drafting such schemes, reframing the guidelines of CSR as to what is exactly in the ambit of charity and sustainability, defining the line where the corporate and the political systems cross and the securities and exchange market watchdogs to take a perspective on how the investor is protected from false narratives and propaganda aimed at pushing up the share prices.

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