

KH Exports India Private Limited

Instrument	Amount	Rating Action
	In Rs Crore	April 2016
Long term, Fund based	12.50	[ICRA]A-, upgraded
Short term, Fund based Limits	90.5	[ICRA]A2+, upgraded
Short term, Non-fund based Limits	54.5	[ICRA]A2+, upgraded
Short term, Proposed facilities	23.9	[ICRA]A2+, upgraded

ICRA has upgraded the rating to the Rs. 12.50 crore[^] fund based bank facilities of K H Exports India Private Limited (KH Exports/'the company') from [ICRA]BBB+ (pronounced ICRA triple B plus) to [ICRA]A- (pronounced ICRA A minus)[†]; the outlook on the rating is Stable. ICRA has also revised the rating to the Rs. 168.90 crore short-term fund based and non-fund based facilities of KH Exports from [ICRA]A2 (pronounced ICRA A two) to [ICRA]A2+ (pronounced ICRA A two plus)[†].

The upgradation of the ratings considers the increased scale of operations following the merger of group entities with K H Exports (KH Shoes & MA Khizar Hussain in 2013 and KH Arind in 2015) and the continuing increase in both the volume of orders and realisations from the customers. The upgradation also considers the increase in competitiveness of Indian leather goods exporters following the rupee depreciation witnessed over the past few years and the marked increase in the company's profitability over the past three years following the tighter integration of operations between the various divisions and improved economies of scale. The rating also reflects the established operational capability of the K H Group, with the Group being one of the largest leather and leather goods exporters in India; the integrated nature of operations that include consolidated procurement of leather hides to complete delivery of leather products; and the longstanding association of the Company with reputed international customers. The ratings further take into account the favourable capital structure of the Company, arising out of high net worth and declining debt levels, and the healthy coverage indicators.

The ratings, however, take into account the merger of the loss making glove manufacturing division with the company which has had an impact on the operating profitability; however, the losses are expected to decline going forward considering better allocation of surplus manpower from the unit. The ratings also consider the vulnerability of margins to fluctuations in foreign exchange rates; power shortages, labour issues and environmental regulation in Tamil Nadu; and, also steady increase in the prices of raw materials due to the shortage of high quality raw hides/skins, finished leather. The ratings are also constrained by the continuing slowdown in Europe, which remains the largest market for leather exporters, leading to a demand slowdown; however, this risk is partially mitigated due to the high share of the company's sales to US-based customers.

Company Profile

The K H group was established by Mr Khizar Hussain in 1947, when it started with a tannery located in Ranipet. As of FY 2016, the group had a turnover of over Rs 1000 crore, making it one of the largest leather goods players in India. K H Exports India Private Limited (formerly Rabia Leather Industries Private Limited; name changed in 2013) was started in 1985, and is a 100% export-oriented with ISO 9001-2000 certification. The manufacturing units of the company are located in Chennai & Ranipet, with a capacity to process 20 million sq ft of leather & to manufacture 3 million pairs of full shoes, 900,000 bags, 3 million (mn) small leather goods (wallets, key chains), 1 mn belts and 2 million gloves per annum. With effect from 1st April 2013, K H Shoes Private Limited and MA Khizar Hussain & Sons were merged with K H Exports India Private Limited. Further with effect from 1st April 2015, K H Arind Private Limited, the leather gloves unit of the Group has been merged with KH Exports. Currently, K H Exports now handles the entire gamut of operations from leather procurement to processing to manufacturing of various products.

April 2016

[^] 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



For further details please contact:

Analyst Contacts:

Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**Mobile: **+91 9903394664**Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500