

April 07, 2017

## KH Exports India Private Limited

Instrument*	Amount	Rating Action
	In Rs Crore	
Long-term, Unallocated limits	12.50 (enhanced from nil)	[ICRA]A- (Positive) / re-affirmed
Long-term, Fund-based facilities	Nil (revised from 12.50)	-
Short Term, Non-fund based limits*	65.00 (enhanced from 54.50)	[ICRA]A2+ /re-affirmed
Short Term, Fund-based facilities	Nil (revised from 90.50)	-
Short term, Unallocated limits	103.90 (enhanced from 23.90)	[ICRA]A2+ /re-affirmed

\*Includes sub-limits of Bank Guarantees; Instrument Details are provided in Annexure I

### Rating Action

ICRA has re-affirmed the long-term rating for the Rs. 12.50<sup>1</sup> crore unallocated limits of KH Exports India Private Limited (“KH Exports” /the company”) at [ICRA]A- (pronounced ICRA A minus). ICRA has revised the outlook on the rating from Stable to Positive. ICRA has also re-affirmed the short-term rating at [ICRA]A2+ (pronounced ICRA A two plus)<sup>2</sup> for the Rs. 65.00 crore (enhanced from Rs. 54.50 crore) non-fund based limits and for the Rs. 103.90 crore (enhanced from Rs. 23.90 crore) unallocated limits of KH Exports.

### Rationale

The outlook revision takes into account the healthy revenue growth registered by the company in FY 2015–16 and FY 2016–17, benefitting from its established position as one of India’s largest leather footwear and leather products exporters, and catering to globally reputed brands, from whom KH Exports continues to receive healthy repeat orders. KH Exports has also been able to maintain its margins and receivables position, which, on the back of increased scale of business, has resulted in healthy cash generation, allowing the company to sparingly utilise its fund-based limits. The ratings also take into account KH Exports’ favourable financial risk profile, characterised by nil external gearing and comfortable coverage and debt protection indicators. The ratings continue to draw comfort from the considerable experience of its promoters, and the integrated nature of the company’s operations with in-house tannery, sole manufacturing and lining facilities.

The ratings are, however, constrained by KH Exports’ relatively high customer concentration; the company’s exposure to demand cyclicity in end user markets, changes in environmental regulations, power and labour issues; and its exposure to forex risk due to high share of exports in revenues. The ratings also consider KH Exports’ exposure to volatility in leather prices, although its ability to partly pass on the price increase to its customers mitigates the risk to an extent.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA’s website [www.icra.in](http://www.icra.in) / other ICRA Rating publications

## Key Rating Drivers

### Credit Strengths

- One of the largest leather footwear and products exporters in India; experienced promoters with long track record in the business
- Reputed clientele comprising top global brands in the leather goods industry
- Integrated operations, with the group having its own tannery, sole manufacturing and lining facilities
- Favourable financial risk profile characterised by nil external gearing and comfortable coverage and debt protection indicators

### Credit Weakness

- Exposure to demand cyclicalities in end user markets
- Exposure to forex risk due to high reliance on exports
- High customer concentration and weak bargaining power against large international customers
- Exposed to volatility in leather prices
- Risks of changes in environmental regulations, power and labour issues

### Description of key rating drivers highlighted above:

KH Exports commenced operations in 1985 as Rabia Leather Industries Private Limited, a 100% EOU. The KH Group traces its roots to the tannery business set up by Mr. Khizar Hussain in 1947. Over the years, the group has expanded manifold and included numerous companies engaged in manufacture of different leather products. Over FY 2014-FY 2016, the group undertook a restructuring exercise, whereby all the major entities of the group were merged with KH Exports, which has allowed the company to emerge as one of India's largest exporters of leather shoes and products. The company also benefits from the integrated nature of its operations, possessing in-house, tannery, sole manufacturing and lining facilities.

KH Exports registered healthy revenues in FY 2015–16 and FY 2016–17 – increasing by ~21% and ~10% respectively – on the back of repeat orders from its clients, which comprise globally reputed brands in the leather footwear and apparel space – including Cole Haan, Coach and Prada – and with whom, KH Export enjoys long standing relationships. The company has been able to sustain its operating margins and maintain tight control over its working capital, which, amidst increased scale of business, resulted in healthy cash generation, allowing the company to sparingly utilise its working capital limits. Consequently, KH Exports closed all its fund-based limits from its bank in November 2016, and currently avails only LC limits. As such, the company's debt profile as on December 2016 solely comprised unsecured loans from promoters and related parties. KH Exports' financial risk profile hence remains comfortable, with nil external gearing and healthy interest coverage and debt protection metrics.

KH Exports' however, remains exposed to demand cyclicalities in end user markets, which is currently concentrated towards the US. The company concentration risks also remain high with top five clients accounting for ~70% of total revenues; nevertheless, ICRA notes that the company enjoys a healthy track record with such clients, and has not faced any major payment related issues in the past. The company's margins also remain exposed to forex risks, given that nearly the entirety of its revenues is derived from exports; however, this is partially mitigated by the natural hedge it obtains through the import of raw materials. Its margins also remain exposed to volatility in leather prices owing to the supply dynamics of the raw material; nevertheless, the company's ability to partly pass on the price increase to its customers aid in maintaining its margins. Furthermore, as in common to the leather industry, KH Exports remains exposed to changes in environmental regulation and government policies, in addition to power shortages and labour issues.



**Analytical approach:**

**Links to applicable criteria**

Corporate Credit Rating – A Note on Methodology

<<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>>

Framework for Liquidity Analysis in Corporate Ratings

<<http://www.icra.in/Files/Articles/Framework%20March%202016.pdf>>

**About the Company**

KH Exports Private Limited was incorporated as Rabia Leather Industries Private Limited in 1985, and is a 100% export-oriented with ISO 9001-2000 certification. Mr. Mohamed Hashim is KH Exports' Chairman, and the company is managed by Mr Abdul Wahab, one of his sons. The manufacturing unit of the company is located in Chennai, with a built-up area of 125,000 square feet. The manufacturing units have a capacity to process 20 million sq ft of leather & to manufacture 3 million pairs of full shoes, 900,000 bags, 3 million small leather goods (wallets, key chains), 1 million belts and 2 million gloves per annum. The company caters to a reputed clientele including Cole-Haan, Prada, Marks & Spencer, Ralph Lauren Co, amongst others.

With effect from 1st April 2013, group entities K H Shoes Private Limited and MA Khizar Hussain & Sons were merged with KH Exports. Furthermore, K H Arind Private Limited was also merger with KH Exports, with effect from 1st April 2015.

For FY 2015–16, KH Exports reported a PAT of Rs. 35.03 crore on an operating income of Rs. 1006.18 crore, as against a PAT of Rs. 24.80 crore on an operating income of Rs. 834.16 crore in FY 2014–15.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY 2017	Month-year & Rating in FY 2016	Month-year & Rating in FY2015	
				April 2017	May 2016	April 2015	April 2014	
1	Unallocated Limits	Long Term	12.50	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	
2	Letter of Credit	Short Term	65.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	
3	Bank Guarantees*	Short Term	(5.00)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	
4	Unallocated limits	Short Term	103.90	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	

\*Sub-limit to Letter of Credit

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Unallocated Limits	-	-	-	12.50	[ICRA]A- (Positive)
Letter of Credit	-	-	-	65.00	[ICRA]A2+
Bank Guarantees*				(5.00)	[ICRA]A2+
Unallocated limits	-	-	-	103.90	[ICRA]A2+

*\*Sub-limit to Letter of Credit*

**Name and Contact Details of the Rating Analyst(s):**

**K Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Raghunath T**  
+91 44 4596 4340  
[raghunath.t@icraindia.com](mailto:raghunath.t@icraindia.com)

**Kailash Srinivasan**  
+91 44 4596 4309  
[kailash.srinivasan@icraindia.com](mailto:kailash.srinivasan@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)



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**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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: +91 9871221122

Email: [vivek@icraindia.com](mailto: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: +91 9821086490

Email: [shivakumar@icraindia.com](mailto: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](mailto: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: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

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

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto: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: +91 9821086490

Email: [shivakumar@icraindia.com](mailto: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: +91 9821086490

Email: [shivakumar@icraindia.com](mailto: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: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

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