

December 18, 2024

KH Exports India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Letter of Credit	70.00	90.00	[ICRA]A1; reaffirmed
Credit Exposure Limit/ Loan Equivalent Risk	12.00	2.00	[ICRA]A1; reaffirmed
Bank Guarantee [^]	(5.00)	(5.00)	[ICRA]A1; reaffirmed
Credit Exposure Limit [^]	(0.00)	(10.00)	[ICRA]A1; reaffirmed
SBLC for Buyer's Credit [^]	(0.00)	(20.00)	[ICRA]A1; reaffirmed
Overdraft	0.00	0.15	[ICRA]A1; reaffirmed
Unallocated Limits	43.00	32.85	[ICRA]A1; reaffirmed
Total	125.00	125.00	

*Instrument details are provided in Annexure-I; [^]sublimit of Letter of Credit

Rationale

The rating reaffirmation on the bank lines of KH Exports India Private Limited (KHEIPL) considers an expected modest recovery in its operational and financial performances over the medium term, supported by its established position in footwear exports, its long relationship with globally reputed brands, and the considerable experience of its promoters. The rating also derives comfort from the integrated nature of KHEIPL's operations, which include an in-house tannery, sole manufacturing, and lining facilities. KHEIPL has a diverse product offering in the leather products space that includes bags, shoes, belts, gloves, and other small leather products, which enable them to provide an array of products to all its clientele. While the operating revenues fell by 10.4% on a YoY basis to Rs. 1,309.8 crore in FY2024, it recovered in H1 FY2025 with KHEIPL reporting revenues of ~Rs. 738.4 crore. Further, order flow and execution are expected to improve with a recovery in demand. Despite moderation witnessed in raw material prices, absence of economies of scale resulted in the operating margin remaining flat at 2.6% in FY2024.

The rating, however, remains constrained by the weakening in profitability witnessed over the last two fiscals amid cost pressure, primarily emanating from the increase in minimum wages for labour in Tamil Nadu and losses from the sale of obsolete inventory, resulting in a moderation in coverage indicators. While the company has no fund-based borrowings, bank charges represent the cost incurred towards discounting its receivables and LC issuance charges. Owing to an increase in bill discounting charges and weak operating profitability, the interest coverage ratio moderated to 2.5 times in FY2024 from 3.1 times in FY2023. The coverage indicators are expected to improve over the medium term, supported by a recovery in demand for leather products. The rating also remains constrained by KHEIPL's relatively higher customer concentration risk and its weak bargaining power against large international customers. Besides, the limited presence of its own branded product reduces its scope for margin improvement. The company is also exposed to geographical concentration risks with the major portion of its exports made to the US and European markets. ICRA observes that with 50-60% of the revenues coming from the US markets, the company remains susceptible to demand cyclicality in this key end-user market. KHEIPL is also prone to regulatory risks and the resultant operational disruption, with restrictions on sourcing of animal hides and stringent pollution control norms on effluents (generated during the tanning process), as well as any change in the state's labour laws.

Key rating drivers and their description

Credit strengths

Established player in the leather footwear/accessories business, led by experienced promoters – KHEIPL is one of the largest players in the Indian leather footwear/accessories export industry. The company is involved in the manufacturing and export of leather footwear and leather accessories for more than seven decades. The company is a family-promoted business, and the extensive industry experience of the promoters has facilitated growth of its business over the years.

Reputed clientele comprising top global brands in the industry – The company has an established customer base comprising reputed brands like Coach Manufacturing, Cole-Haan, Michael Kors, Tory Burch, etc. KHEIPL's customer churn rate has remained minimal over the years, indicating healthy relationships with clients.

Integrated operations, with the Group having its own tannery, sole manufacturing and lining facilities supporting profit margins – The integrated nature of the company's operations, with an in-house tannery, lining facilities, and manufacturing units, facilitates seamless operations. This leads to cost benefits arising from bulk procurement of raw materials and a reduction in the overall production cost. Bulk procurement ensures quality control and helps capture value addition across the supply chain. It also helps maintain product quality and ensures timely order fulfillment.

Diversified product portfolio spread across various leather-based products – KHEIPL's revenues are well diversified across the leather and leather goods spectrum following the merger of the tanning unit, shoe manufacturing unit, and leather gloves unit to the existing accessories manufacturing division of the Group in FY2013. The production mix depends on the demand for the product and its profitability. In FY2024, full leather shoes remained the company's mainstay, accounting for ~32% of the revenue, followed by leather bags accounting for ~30%, and gloves, belts, and other small leather products accounting for the remaining revenues.

Credit challenges

Weak financial performance in the last two fiscals moderating coverage indicators – Over the last two fiscals, the company has witnessed a moderation in its operating margins due to stagnant demand for leather products in key export markets. Additionally, cost pressure primarily emanates from the increase in minimum wages for labour in Tamil Nadu, and losses from the sale of obsolete inventory has weakened the operating margins. This weakening of profitability coupled with an increase in bank charges had an adverse impact on the coverage metrics of KHEIPL. Consequently, the interest coverage ratio declined to 2.5 times in FY2024 from the healthy level of 23.2 times observed in FY2022. The same is expected to improve over the medium term with a likely increase in the operating margins following a recovery in demand for leather products.

Exposed to volatility in leather prices and rising labour costs – KHEIPL imports a large portion of its leather requirements in accordance with its customers' preferences and is thus vulnerable to volatility in leather import prices. Nevertheless, the company's ability to partly pass on the price fluctuations to its customers mitigates the risk to a large extent. Additionally, it witnessed a significant increase in labour costs in FY2023 and FY2024, largely due to a rise in the minimum wage prescribed under labour laws in Tamil Nadu in 2021.

High customer and geographical concentration risks – KHEIPL faces high customer concentration risk with its top three customers accounting for more than 50% of its revenues. However, the company enjoys an established relationship with these marquee customers, which have been awarding it with repeat businesses. However, association with reputed brands restricts its bargaining power. Limited presence of its own branded products (accounting for ~1% of revenue) reduces the scope for margin improvement. The company is also exposed to geographical concentration risks as the major portion of its exports is made to the US and European markets. With 55-60% of the export revenues coming from the US markets, the company remains susceptible to demand cyclicity in this key end-user market.

Exposure to changes in environmental regulations, power and labour issues – The leather industry is prone to regulatory risks with restrictions on the sourcing of animal hides and stringent pollution control norms on effluents generated during the tanning process, as well as any change in the state’s labour laws. As the manufacturing process is labour and power intensive, the company is also susceptible to issues related to power shortage and labour demands.

Liquidity position: Strong

KHEIPL’s liquidity position is strong with unencumbered cash and liquid investment of around Rs. 9.6 crore as on September 30, 2024, coupled with its debt-free status and moderate capex plans, going forward. Further, its modest working capital intensity, driven by efficient receivables and inventory management, enables KHEIPL to maintain a strong liquidity position. The same is reflected by the moderate utilisation of non-fund-based limits in the 12-month period ending in September 2024 (average utilisation level of 32%).

Rating sensitivities

Positive factors – ICRA may upgrade the rating for KHEIPL if there is a sustained improvement in revenues and profitability levels, strengthening the operating profile for the company. The rating could also be upgraded if a reduction in the working capital intensity leads to a significant improvement in the liquidity profile of the company. Specific credit metric that could lead to a rating upgrade includes an interest coverage above 7.0 times on a sustained basis.

Negative factors – Pressure on the rating could arise if there is a material decline in revenue or weakening of profitability, or if any adverse change in the regulations impacts the sector. The rating could also come under pressure if a stretch in the working capital intensity adversely impacts the liquidity profile of the company. Specific credit metric that could lead to a rating downgrade includes an interest coverage below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology on Footwear
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalones financials of KHEIPL.

About the company

KHEIPL was incorporated as Rabia Leather Industries Ltd. (Rabia) in 1985 and is a 100% export-oriented unit with ISO 9001-2000 certification. The KH Group traces its origin to the tannery business set up by Mr. M.A. Khizar Hussain in 1947. Over the years, the Group has expanded manifold and included numerous companies involved in the manufacturing of different leather products. During FY2014-FY2016, the Group undertook a restructuring exercise, whereby all the major entities of the Group were merged with KH Exports, which made the company one of India’s largest exporters of leather shoes and products. KHEIPL has 11 manufacturing units in various locations in Tamil Nadu, namely Poonamalle in Chennai and Ranipet in Vellore, with an overall built-up area of 18,00,000 square feet. The company has in-house tannery, sole manufacturing, lining, and shoe assembling facilities. The manufacturing units have the capacity to process 25 million sq. ft. of leather and can produce up to 2 million pairs of full shoes, 1.5 million bags, 3.7 million small leather goods (wallets, key chains), 1.8 million belts, and 2 million gloves per annum.

Key financial indicators (audited)

KHEIPL Standalone	FY2023	FY2024	H1 FY2025*
Operating income	1462.5	1309.8	738.4
PAT	1.5	0.9	-
OPBDIT/OI	2.5%	2.6%	2.9%
PAT/OI	0.1%	0.1%	-
Total outside liabilities/Tangible net worth (times)	0.5	0.5	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	3.1	2.5	3.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Date	Rating	FY2024		FY2023		FY2022	
					Date	Rating	Date	Rating	Date	Rating
Letter of Credit	Short Term	90.00	Dec 18, 2024	[ICRA]A1	Sept 25, 2023	[ICRA]A1	Jun 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
					-	-	-	-	Nov 05, 2021	[ICRA]A1+
Credit Exposure Limit/ Loan Equivalent Risk	Short Term	2.00	Dec 18, 2024	[ICRA]A1	Sept 25, 2023	[ICRA]A1	Jun 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
					-	-	-	-	Nov 05, 2021	[ICRA]A1+
Bank Guarantee*	Short Term	(5.00)	Dec 18, 2024	[ICRA]A1	Sept 25, 2023	[ICRA]A1	Jun 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
					-	-	-	-	Nov 05, 2021	[ICRA]A1+
Credit Exposure Limit*	Short Term	(10.00)	Dec 18, 2024	[ICRA]A1	-	-	-	-	-	-
SBLC for Buyer's Credit*	Short Term	(20.00)		[ICRA]A1	-	-	-	-	-	-
Overdraft	Short Term	0.15	Dec 18, 2024	[ICRA]A1	-	-	-	-	-	-
Unallocated Limits	Short Term	32.85	Dec 18, 2024	[ICRA]A1	Sept 25, 2023	[ICRA]A1	Jun 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
					-	-	-	-	Nov 05, 2021	[ICRA]A1+

*Sublimit of Letter of Credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Letter of Credit	Very Simple
Credit Exposure Limit/ Loan Equivalent Risk	Very Simple
Bank Guarantee	Very Simple
SBLC for Buyer's Credit	Very Simple
Overdraft	Very Simple
Untied Limits	NA

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit	NA	NA	NA	90.00	[ICRA]A1
NA	Credit Exposure Limit/ Loan Equivalent Risk	NA	NA	NA	2.00	[ICRA]A1
NA	Bank Guarantee*	NA	NA	NA	(5.00)	[ICRA]A1
NA	Credit Exposure Limit*	NA	NA	NA	(10.00)	[ICRA]A1
NA	SBLC for Buyer's Credit*	NA	NA	NA	(20.00)	[ICRA]A1
NA	Overdraft	NA	NA	NA	0.15	[ICRA]A1
NA	Untied Limits	NA	NA	NA	32.85	[ICRA]A1

Source: Company; *sublimit of Letter of Credit

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Annexure II: List of entities considered for consolidated analysis- Not Applicable

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