Sai Silks (Kalamandir) Limited
APRIL 01, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	154.04 (Reduced from 158.06)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Total Facilities	154.04 (Rs. One Hundred Fifty-Four Crore and Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sai Silks (Kalamandir) Limited (SSKL) continues to draws strength from experienced and resourceful promoters with adequate industry exposure, widespread market presence corroborated by a prevalent brand name, long-standing supplier relations, growth in total operating income and satisfactory profitability margins during FY20 (FY refers to the period April 01 to March 31), comfortable capital structure and satisfactory debt coverage indicators. The strengths, are however partially constrained by high reliance on bank borrowings, concentrated revenue profile, presence in a highly competitive industry and negative industry prospects for retail sector. The ratings also factor in moderation in performance of the company during FY21 due to outbreak of Covid-19.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant increase in the scale of operation with TOI increasing to Rs.1,500 crore and above while maintaining a PBILDT margin of minimum 8% on sustained basis.
- Diversification of revenue stream generated through expansion in untapped cities and other geographies along with such stores having profitable operations.
- Increase in gross cash accruals by 20% as well as generation of healthy cash flow from operations on a sustained basis resulting in improvement in its debt coverage indicators

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Decrease in PBILDT margin below 5% in future years
- Any debt-funded capex or extensive working capital utilization leading to increase in debt levels, deteriorating TD/GCA beyond 5x in future years or overall gearing ratio deteriorating above 1.50x in future.

Outlook – Negative

The 'Negative' outlook on the rating reflects the expected sharp decline in total operating income and cash accruals during FY21 due to outbreak of Covid-19, impacting the financial risk profile of the company. The outlook, however, may be revised to 'Stable' if there is improvement in the company's performance demonstrating healthy growth in revenue and profitability levels along with exhibition of strong cash accruals going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters with adequate industry exposure

The Kalamandir group was founded by Mr. Chalavadi N K Durga Prasad and others in 2005. The promoters have wide experience and a successful track record of establishing and operating retail textile stores across South India. The business operations of the company have benefited from the promoters long established track record and the vast industry network developed over the years. Further, the company is financially backed by its promoters who regularly infuse funds to support the company's growing scale of operations.

Widespread market presence corroborated by a prevalent brand name

The company has an established brand name demonstrated by its renowned presence in the South Indian retail industry. The company under Sai Silks (Kalamandir) Limited has been enhancing its market position by consistently expanding its scale of operations over the years. All the operating stores are occupied on leased basis and are favourably located in the prime commercial centres of Telangana, Andhra Pradesh, Karnataka and Tamil Nadu which enables the company to attract footfall and hence, increase its customer base. The company follows 4 formats of stores in order to cater to different target customers and increase its reach. SSKL markets its products, under the brand names of "Kalamandir (KMR)", "Mandir (MDR)", "Varamahalakshmi (VML)" and "KLM Mall (KLM)".

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Long-standing supplier relations
SSKL, by virtue of its long-standing presence in the retail industry, has established strong relationship with its suppliers through 'Sai Retail India Limited (SRIL)'. The company procures 100% of its products from its group company SRIL, which in turns purchases from manufactures / suppliers all over the country and ensures regularity in supply at competitive prices; which is critical for a retail company. The group company has established a strong relationship with its vast vendor network over the last decade.

Growth in total operating income and stable profitability margins during FY20
The total operating income has increased by 13% from Rs. 1044.94 crore during FY19 to Rs. 1177.42 crore during FY20 on the back of growing demand for the company's brands. Resultantly, in line with increasing TOI, the company registered increase in operating profit and net profit levels. The PBILDT and PAT margin stood satisfactory at 8.48% and 3.87% in FY20 vis-à-vis 8.00% and 2.90% in FY19.

Comfortable capital structure and satisfactory debt coverage indicators
The overall gearing has improved from 0.98x as on March 31, 2019 to 0.74x as on March 31, 2020 owing to accretion of profits to net-worth and reduction in debt levels during FY20 at the back of scheduled repayment of long-term loans. Further, the company has satisfactory debt-protection metrics with comfortable interest coverage and total debt/GCA of 4.03x and 2.67x during FY20.

Key Rating Weaknesses
Expected moderation in performance during FY21 due to outbreak of Covid-19
The outbreak of Covid-19 in the country was closely followed by a nation-wide lockdown to contain the pandemic. The lockdown was implemented on March 24, 2020, which continued till May 31, 2020, under four phases, leading to a complete shutdown of all stores from March 24, 2020 till May 2020. As a result, the company reported drastic fall in sales during H1FY21 vis-à-vis H1FY20. However, with the demand starting to pick up from Q3FY21, the company achieved total sales of ~ Rs. 483 crore during 9MFY21. The sales have started gaining momentum on a month on month basis and are expected to continue to improve on the back of pent up demand and wedding season. Although, Q4FY21 might witness sequential improvement in the performance of the company, FY21 as a whole is expected to witness significant fall in revenues due to the impact of COVID-19.

High reliance on bank borrowings
The company operates in a highly working capital-intensive industry governed by seasonality, wherein the requirement for inventory remains high. SSKL currently operates 43 stores and incurs significant operational expenditure towards admin and maintenance. Also, all the stores maintain around three to four months of inventory for display purposes based on the market demand, this results in high working capital requirement. Resultantly, the company's reliance on working capital bank borrowings was high with the average utilization of working capital limits being 82% for the last 12 months ended January 31, 2021. However, the cash and carry nature of the business and the credit period from suppliers lend a certain degree of comfort to the liquidity profile.

Concentrated revenue profile
The company mainly retails in women's wear segments, men's wear and kid's wear. The company derives its major revenue from the women's wear segment which contributed 78.50% towards net sales in FY20 (81.65% in FY19). The company has marginally diversified product portfolio with men's and kid's wear to appeal to a wider consumer segment and has also positioned itself as a one-stop shopping location for the entire family. The combined contribution from the men's and kid's wear segment was 21.50% to total revenue in FY20 (18.35% in FY19). Nevertheless, the focus still remains on women's wear comprising sarees and dress materials, being one of the major revenue drivers.

Operating margins vulnerable to intense competition amidst fragmented readymade garments industry
The retail business has low entry barriers and is highly competitive due to presence of innumerable unorganized players in the industry. The industry is extremely varied, with a hand-spun and hand-woven sector at one end of the spectrum, and the capital-intensive sophisticated mill sector at the other. The e-commerce industry is also expanding at a rapid pace in the country and poses a threat to the brick and mortar retail business.
In its key markets of Telangana, Andhra Pradesh and Karnataka, the company faces intense competition from RS Brothers group, Chandana group, J.C. Brothers group, Kalanikethan Silks, Nalli etc. But the SSKL's strong brand image in textile retailing sector has helped it to manage competition by attracting healthy footfalls.

Medium-term consumption slow-down in the economy accentuated by the outbreak of Covid-19 crisis; albeit good long-term growth prospects of textile retail business

The nationwide lockdown imposed by the government from end-March 2020 till May 31, 2020 for containing the outbreak of Covid-19 has had an adverse impact on the retail industry as the non-essential establishments remained closed which almost stopped the business operation of the retail industry. Fashion and lifestyle segment of the retail industry has suffered to a greater extent due to the shutdown and consumer spending on such items taking a backseat during such times. Further, the restrictive measures for containment of the virus, the overall lower income levels due to higher unemployment and the sharp global economic slowdown have constrained the consumption demand.
Therefore, in view of lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand is expected to remain muted for FY21. Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

Liquidity: Adequate
The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis repayment obligations. SSKL has an unencumbered cash balance of Rs. 14.74 crore as on December 31, 2020. However, the operations of SSKL are working capital intensive due to requirement of large inventory holding in its retail business. Nevertheless, the company has a satisfactory short-term liquidity position with operating cycle at 73 days in FY20 on account of cash and carry nature of the business and the credit period availed from suppliers. The net cash flow from operations stood at Rs. 71.40 crore in FY20 which was more than adequate to meet its incremental working capital needs in the immediate future. Further, the company had availed moratorium granted by its lenders as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of six months towards the term debt repayment obligation and interest payment on its working capital limits. Additionally, SSKL has availed working capital term loan of Rs. 39.42 crore under Common Covid Emergency Credit Line (CCECL) and Guaranteed Emergency Credit line (GECL) to meet the operational requirements. Considering the available liquid funds in the form of additional limits availed by the company, it is expected that the debt obligations could be met comfortably.

Analytical approach: Standalone
Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Methodology – Organized Retail Companies]
[Financial ratios – Non-Financial Sector]
[Liquidity analysis of Non-financial sector entities]

About the Company
Sai Silks (Kalamandir) Limited (SSKL) was established in 2005 as a partnership firm by Mr. Chalavadi N K Durga Prasad. It was subsequently converted into a private limited company in 2008 and then into a public limited company (unlisted) in May 2009. The company is majorly into retailing of textile products such as sarees, women's wear, men's wear, kids wear, etc. under the brand names "Kalamandir", "Mandir", "KLM Fashions" and "Varamahalakshmi" which follows 4 different formats. SSKL has a network of 43 retail outlets in prevalent commercial centers in South India as on December 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1044.94	1177.42
PBILDT	83.58	99.84
PAT	30.33	45.59
Overall gearing (times)	0.98	0.74
Interest coverage (times)	4.22	4.03

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Annexure 2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Dec 2024	38.04	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	109.50	CARE A-; Negative
Fund-based - LT-Stand by Limits	-	-	-	6.50	CARE A-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	38.04	CARE A-; Negative	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20) 2)CARE A-; Stable (19-Apr-19) 3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	109.50	CARE A-; Negative	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20) 2)CARE A-; Stable (19-Apr-19) 3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)
3.	Fund-based - LT-Stand by Limits	LT	6.50	CARE A-; Negative	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20) 2)CARE A-; Stable (19-Apr-19) 3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Stand by Limits	Simple
3.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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