Nalli Silk Sarees Private Limited

March 04, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	80.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	80.00 (Rs. Eighty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Nalli Silk Sarees Private Limited (NSSPL) continue to derive strength from the experienced promoters in textile industry, long operational track record with strong brand image of 'Nalli', geographically diversified revenue stream, established relationship with a large supplier base, growth in total operating income and profitability margins during FY20 (FY refers from April 1 to March 31), comfortable financial risk profile, low reliance on working capital borrowings supported by favourable operating cycle and availability of considerable liquid funds which provides required comfort in the on-going pandemic time. The rating also factors in moderation in the performance of the company during H1FY21 due to COVID-19 which is expected to result in considerable reduction in the total operating income followed by profit levels and cash accruals during FY21. The ratings are, however, constrained by declining revenue from jewellery retailing, presence in a highly competitive and fragmented saree retail industry, 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.

Key Rating Sensitivities

Positive Factors:

- Significant increase in the scale of operation with TOI increasing to Rs. 600 crore and above while maintaining a PBILDT margin of minimum 9% on sustained basis.
- 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:

- 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 overall gearing ratio above 1.50x in future.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in textile retail industry

Padma Shri Nalli Kuppuswami Chetti and his son Mr. Ramanathan, possess vast experience of nearly 6 decades & 3 decades respectively in the textile retailing business. Mr. Kuppuswami Chetti has been in the business from 1956, when he became the managing partner of NCC, the flagship entity of the group which has been in the retail business since 1928. Mr. Ramanathan has been instrumental in the growth and geographic expansion of Nalli. He oversees the day-to-day operations. Currently, the fifth-generation members of the family, Ms. Lavanya and Mr. Niranth, daughter and son of Mr. Ramanathan are also part of the management team, supported by experienced professionals such as Mr. K V Balasubramanian, CFO who has been with the group for over three decades.

Long operational track record and strong brand image of 'Nalli'

Nalli group commenced the business with NCC in 1928. Further the group expanded with 'Nalli Silk Sarees' brand (NSS) by opening retail stores in Delhi (1991), Bangalore (1994) and Mumbai (1996). Nalli stores offer a range of sarees from traditional silks to lightweight versions and designer sarees. It also offers an apparel line for women and ready-to-wear menswear (with a sizeable private-label collection), costume jewellery & accessories and soft furnishings. By virtue of being one of the early entrants in the retailing of silk clothing, the group has been able to develop 'Nalli' as a strong brand recognition & loyalty across India (especially in South India), supported by timely delivery, good quality and additional yardage. The brand caters to almost all the economic segments and consistently attracts healthy number of footfalls.

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

Takeover of trading division of Nalli Trust and Nalli NKR Trust

M/s Nalli Trust (NT) was constituted as a Trust (Association of Persons) in order to expand the geographical presence of the well renowned brand image of 'Nalli' in markets other than that of Chennai and South India. During April 2018, NSSPL purchased the entire trading division of NT through a slump sale as per business transfer agreement dated April 11, 2018. The total purchase consideration paid for acquiring the trading division of NT was Rs. 92.30 crores. Further, during September 2019, NSSPL purchased the entire trading division of Nalli NKR Trust (NNT) through a slump sale as per business transfer agreement dated September 15, 2019. The total purchase consideration paid for acquiring the trading division of NNT was Rs. 17.20 crores.

Geographically diversified revenue stream

Over the years, the group has expanded the geographical presence of the well renowned brand image of 'Nalli' in markets other than that of Chennai and South India by opening retail stores in Delhi (1991), Bangalore (1994) and Mumbai (1996). As on December 31, 2020, NSSPL has 29 textile retail showrooms and one jewellery showroom, spread across 11 cities (Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Coimbatore, Kolkata, Kanchipuram, Ahmedabad, Kochi, and Puducherry).

Established relationship with a large supplier base

By virtue of the product diversification strategy, NSSPL has built a strong relationship with vendors and currently has access to a supplier base of over 3,000 suppliers. The company also makes new designs through its in house design team with inputs from customers also factored in. The vast network of suppliers also helps NSSPL in procuring all kinds and varieties of silk sarees. NSSPL has thus been able to serve attract both premium and price conscious buyers with sarees for both customer segments.

Growth in total operating income and profitability margins during FY20

The total operating income has increased by 13% from Rs. 507.61 crore during FY19 to Rs. 573.77 crore during FY20 on back of growing demand for the company's brands. The PBILDT margin has also improved from 7.25% during FY19 to 8.60% during FY20. The improvement in total revenue coupled with reduction in overhead cost and effective management of the inventory levels has aided the company to improve the operating margins. Further, the PAT margin improved marginally from 3.80% during FY19 to 4.52% during FY20.

Low reliance on working capital borrowings supported by favourable operating cycle providing cushion in the on-going pandemic time

Although the company operates in a highly working capital-intensive industry governed by seasonality, wherein the requirement for inventory remains high generally, the company has a favourable working capital cycle owing to comfortable inventory and creditor days. The inventory holding period of NSSPL is low owing to effective management of the inventory levels. Further, the average utilization of fund-based working capital limits even during the pandemic time has remained modest, i.e. around 40% during last 12 months ended December 2020. The cash and carry nature of the business, credit period from suppliers and sufficient headroom available in the form of cash & cash equivalents result in low reliance on bank borrowings, lending a certain degree of comfort to the liquidity profile.

Comfortable capital structure and satisfactory debt coverage indicators

The debt profile of the company majorly comprises of term loans, vehicle loans and working capital borrowings. The capital structure of the company stood comfortable marked by overall gearing of 0.79x as on March 31, 2020 (0.74x as on March 31, 2019) due to accretion of profits to net worth.
The debt coverage indicators, PBILDT interest coverage ratio has improved from 6.95x during FY19 to 10.06x during FY20 due to increase in PBILDT levels in absolute terms. Total debt/GCA has also remained comfortable at 1.57x during FY20 vis-à-vis 1.53x during FY19.

Key Rating Weaknesses

Expected moderation in operating 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 June 2020. Though the Central and State Govt. had lifted the lockdown in a phase wise manner, some retail showrooms were restricted to operate due to severity of COVID-19 in those cities which further led to revenue loss to NSSPL. All the stores were fully operational from mid August 2020 only. As a result, the company reported 60% drop 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. 270 crore during 10MFY21. The sales have started gathering momentum on a month on month basis and are expected to continue to improve on the back of pent up demand and wedding season.

Declining revenue from jewellery retailing

Nalli group commenced its retail jewellery business in September 2012 by opening the showroom by the name of 'Nalli Jewellers', next to the retail store owned by NCC in the commercial hub of T. Nagar, Chennai. Nalli wanted to leverage upon the existing customer base who purchase jewellery & sarees together for marriages & auspicious occasions. Revenue from jewellery division of the group (now acquired by NSSPL) has been declining over the years and stood at Rs. 24.68 crore during FY20 (Rs. 24.07 crore during FY19) as against Rs. 60 crore during FY15. NSSPL has restricted its level of operations in the jewellery segment as the management is more inclined to expand its textile division.

Presence in a highly competitive and fragmented textile retail industry

The retail business has low entry barriers and is highly competitive due to presence of innumerable unorganized players in the industry. In the silk saree retailing segment, Nalli faces stiff competition from brands such as Kumaran Silks, RmKV Silks, the Chennai Silks, Varamahalakshmi etc. who offer silk sarees and similar products. However, with Nalli brand having carved a niche place for its brand, NSSPL has continued to benefit from the same. The entity's strong brand image in silk sarees 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. 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. 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. NSSPL has headroom available in the form of cash & cash equivalents to the tune of ~ Rs. 58 crore as on March 31, 2020 and ~Rs. 70 crore as on December 31, 2020 coupled with unutilized bank limits around 60%. The cash and carry nature of the business, effective management of inventory levels and the credit period from suppliers lend a certain degree of comfort to the liquidity profile. The presence of unencumbered liquid funds and low reliance on working capital borrowings provide necessary comfort to its liquidity in the on-going pandemic time. Further, it is to be noted that the company had not 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.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial sector entities
CARE's Methodology – Organized retail sector

About the Company

Nalli Silk Sarees Private Limited (NSSPL) is engaged in retailing of silk sarees, cloth and piece-goods, women's apparels, ready-to-wear menswear, jewellery and accessories. NSSPL belongs to the Chennai based 'Nalli' group. The name 'Nalli' holds a strong brand image in India, especially South India. NSSPL operates 30 showrooms, spread across 11 cities (Chennai, Delhi, Mumbai, Bangalore, Hyderabad, Coimbatore, Kolkata, Kanchipuram, Ahmedabad, Kochi and Puducherry).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	507.61	573.77
PBILDT	36.78	49.35
PAT	19.27	25.91
Overall gearing (times)	0.74	0.79
Interest coverage (times)	6.95	10.06

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
Fund-based - LT-Term Loan	-	-	Oct 2024	5.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE BBB+; Stable

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	5.00	CARE BBB+; Stable	1)CARE BBB+; Stable (08-Apr-20)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB+; Stable	1)CARE BBB+; Stable (08-Apr-20)	-	-	-

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-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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