

Nalli Silk Sarees Private Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	194.16 (Enhanced from 80.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	194.16 (Rs. One Hundred Ninety-Four Crore and Sixteen Lakhs 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, 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. The rating also factors in moderation in the performance of the company during FY21 due to COVID-19. The ratings are, however, constrained by declining revenue from jewellery retailing, presence in a highly competitive and fragmented saree retail industry, moderation in capital structure owing to debt funded capex.

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. 700 crore and above while maintaining a PBILDT margin of minimum 9% 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 overall gearing ratio above 2.75x in future.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in textile retail industry

Padma Shri Nalli Kuppaswami Chetti and his son Mr. Ramanathan, possess vast experience of nearly 6 decades & 3 decades respectively in the textile retailing business. Mr. Kuppaswami Chetti has been in the business from 1956, when he became the managing partner of Nalli Chinnasami Chetty (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.

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 showrooms, spread across 11 cities (Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Coimbatore, Kolkata, Kanchipuram, Ahmedabad, Kochi, and Puducherry).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

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 2021. 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.

Key Rating Weaknesses

Moderation in operating performance during FY21, albeit improved performance in H1FY22

Income in FY21 was impacted by outbreak of Covid-19 in the country and subsequent nation-wide lockdown. As a result, the company's total operating income witnessed moderation from Rs. 573.77 crore during FY20 to Rs. 347.05 crore during FY21. The Company suffered disruption in first quarter of FY22 owing to partial lockdown because of Covid-19. However, with the demand starting to pick up, the company achieved sales of Rs. 195 crore during H1FY22. 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 which 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.

Moderating capital structure and debt coverage indicators albeit still at satisfactory levels

The debt profile of the company majorly comprises of term loans and working capital borrowings. The overall gearing increased from 0.79x as on March 31, 2020 to 1.03x as on March 31, 2021. It is further expected to increase in FY22 owing to fresh term loan of Rs. 98 crore availed by the Company to purchase a property earmarked for showroom in New Delhi, corporate home loan of Rs. 12.75 crore for purchase of residential flat and a proposed term loan of Rs. 20 crore to be availed for purchase of property in Bengaluru to consolidate their offices premises to a single location.

PBILDT interest coverage ratio reduced from 10.06x in FY20 to 2.57x during FY21 primarily due to lower PBILDT numbers and and total debt/GCA increased from 1.57x in FY20 to 6.42 in FY21.

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. 93 crore as on March 31, 2021 and Rs. 117 crore as on December 31, 2021, 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.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Retail](#)

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 29 showrooms, spread across 11 cities (Chennai, Delhi, Mumbai, Bangalore, Hyderabad, Coimbatore, Kolkata, Kanchipuram, Ahmedabad, Kochi and Puducherry).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	573.77	347.05	195.24
PBILDT	49.35	23.77	17.23
PAT	25.91	3.97	7.72
Overall gearing (times)	0.79	1.03	NA
Interest coverage (times)	10.06	2.57	NA

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2036	114.16	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	80.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	114.16	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Mar-21) 2)CARE BBB+; Stable (08-Apr-20)	-	-
2	Fund-based - LT-Cash Credit	LT	80.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Mar-21) 2)CARE BBB+; Stable (08-Apr-20)	-	-

* Long Term / Short Term

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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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