Sai Silks (Kalamandir) Limited

February 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	249.44	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Sai Silks (Kalamandir) Limited (SSKL) is on account experienced and resourceful promoters, widespread market presence corroborated by a prevalent brand name, long standing supplier relations, of improvement in overall operational and financial performance of the company during FY22 (FY refers to the period April 01 to March 31), satisfactory capital structure and debt coverage indicators with marginal improvement, adequate liquidity position and stable industry growth prospect of retail apparels. The rating also factors in satisfactory operational and financial performance reported in H1FY23, SSKLs proposal to raise funds through Initial Public Offer (IPO) amounting to ₹600 crore which is expected to reduce the company's reliance external debt for expansion of its showroom base and ease its working capital requirements to a certain extent.

The rating strengths are however partially offset by the elongated operating cycle resulting in high reliance on bank borrowings, concentrated revenue profile with major focus on women's wear and vulnerability to intense competition amidst fragmented readymade garments industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operation with TOI increasing to ₹1,500 crore and above while maintaining a PBILDT margin of minimum 14% on sustained basis.
- Gross operating cycle below 200 days
- Successful issuance of IPO which will likely result in significant improvement in liquidity position of SSKL.

Negative factors

- Deterioration in overall gearing above 1.25x going forward.
- Decrease in PBILDT margin below 12% in future years.
- Elongation in gross operating cycle beyond 250 days on sustained basis

Analytical approach: Standalone

Outlook: Stable

Key strengths

Experienced and resourceful promoters with adequate industry exposure: The Kalamandir group was founded by Chalavadi N K Durga Prasad in 2005 along with his partners. The promoters have wide experience and a successful track record of establishing and operating retail textile stores across South India. Currently, Chalavadi N K Durga Prasad is the Chairman & Managing Director of the company. Furthermore, the company is financially backed by its promoters who have been infusing funds to support the business activities and expansion plans. The promoters have been regularly infusing funds in the company to facilitate (part fund) the capex pertaining to addition of new stores.

SSKL has received approval from the Securities and Exchange Board of India for an initial public offering (IPO). The company intends to raise around ₹600 crore through the fresh equity issuance with proceeds primarily to be deployed for capex, partial debt prepayment and general corporate purposes.

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 markets. SSKL markets its products, under the brand names of "Kalamandir (KMR)", "Mandir (MDR)", "Varamahalakshmi (VML)" and "KLM Mall (KLM)" and "KRR" catering to different set of customers. The company has been enhancing its market position by consistently expanding its scale of operations year over year. SSKL has a network of total 53 operating retail outlets as of January 24,2023 in prevalent commercial centres across South India including Telangana (45.30% of FY22 sales), Andhra Pradesh (36.78%), Karnataka (11.14%) and Tamil Nadu (6.78%) which enables the company to attract footfall and increase its customer base.

Long standing supplier relations: Earlier, SSKL used to procure the raw material from Sai Retail India Limited (SRIL), a group company sharing common promoters. However, as of April 1,2022 the same has been completely taken over by Sai Silks

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

(Kalamandir) Limited (SSKL). SSKL with the help of its long-standing presence in the retail industry and SRIL's established strong relationship with its suppliers is in the better position to bargain with its suppliers. The company now purchases the entire offtake of its products directly from manufactures / suppliers all over the country. SSKL procures from reputed textile suppliers from various locations. Sourcing textiles from multiple locations helps the company to ensure uninterrupted supply throughout the year. It has established a strong relationship with its vast vendor network over the last one decade.

Growth in total operating income with significant improvement in profitability: During FY22, SSKL witnessed considerable improvement in total operating income and profit level margins with TOI growth of about 67% to ₹1,129 crore as against ₹677 crore in FY21 majorly on the back of increased footfalls along with growing online sales post subdued demand in FY21 which was impacted by COVID-19. With the surge in sales during FY22, the PBILDT levels also doubled to ₹138.14 crore in FY22 as against ₹62.36 crore in FY21, alongside the margins improving to 12.23% (PY: 9.21%).
SSKL continued to report healthy financial performance in H1FY23 with TOI of ₹649 crore which is about 57% of revenue achieved in FY22 and 46% of revenue projected for FY23. With various festivals in Q3 and Q4 of financial year, SSKL is expected to achieve the projected revenue for full year FY23. The operating and net margins continue to remain higher at about 15% and 7% respectively for FY22 and H1FY23 which will aid the company to achieve the projected TOI.

Satisfactory capital structure and debt coverage indicators: The capital structure of the company remained satisfactory as of March 31, 2022. The overall gearing improved marginally to 1.18x as on March 31,2022 from 1.20x as on March 31, 2021. This is on the back of increase in networth by 26% due to accretion of profit for the current year despite simultaneous increase in total debt to meet the operational requirements. However, the overall gearing continues to remain moderately leveraged. The company's debt-protection metrics represented by interest coverage and Total debt/GCA (TDGCA) improved during FY22. TDGCA witnessed considerable from 8.03x as of March 31,2021 to 4.00x as of March 31,2022 despite moderate increase in debt levels on account of increase in GCA in FY22. Additionally, the interest coverage ratio improved from 2.27x during FY21 to 4.82x during FY22 on account of increased PBILDT levels.
However, as of September 30, 2022, the overall gearing marginally deteriorated to 1.23x due to increased reliance on working capital borrowings and additional term debt availed during the first half of current fiscal to meet the capex requirements. Other debt protection metrics continued to remain at similar level. Successful issuance of IPO which will likely result in deleveraging will be a key rating monitorable.

Stable growth prospects of retail apparel business: Retail sector witnessed gradual recovery in sales, post the second wave of COVID-19. The sales recovered to up to 90% of pre-COVID-19 levels in FY22. Footfalls have breached the pre-pandemic levels in Q1FY23, and the retail sector is expected to surpass its pre-pandemic levels of revenue and profitability in FY23. The level of discounting by the retail industry is also reducing thereby improving the profitability. Apart from large capex plans, the retailers will also focus on expanding omni-channel presence.
Notwithstanding the near-term challenges in terms of inflationary pressures, the trend of increasing urbanization is likely to augur well for the branded apparel segment's long-term growth prospects in India. In the long term, the organized apparel retail market is likely to exhibit good growth due to expectation of increased consumer spending driven by changing demographic profile, high brand consciousness, rising income and purchasing power, increasing number of dual income-nuclear families, changing lifestyle and consumer behaviour.

Key weaknesses

Elongated operating cycle resulting in high reliance on bank borrowings: As retail business is highly working capital intensive in nature governed by seasonality wherein high level of inventory required to be maintained to ensure ready availability of stock. SSKL currently operates 50 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. The company's inventory days have moderated from 222 days in FY21 to 162 days in FY22. The inventory level remained high at Rs. 476.16 crore as on March 31, 2022, as against Rs. 366.96 crore as on March 31, 2021. Therefore, the operating cycle of the company despite improvement remain elongated to 120 days in FY22 as against 142 days in FY21. Resultantly, the company's reliance on working capital bank borrowings was high with the average utilization of working capital limits at 88.84% for 12-month period ending September 30, 2022.
Nevertheless, SSKL benefits from cash and carry nature of the business and the time-honored relationship it maintains with its suppliers as the company gets a credit period of about 45-60 days from the suppliers which lend a certain degree of comfort to the liquidity profile.

Concentrated revenue profile: The company mainly retails in women's wear segments (sarees and dress materials), men's wear and kid's wear. The company derives its major revenue from the women's wear segment which contributed 80.79% and 81.10% towards net sales in FY22 and H1FY23 respectively similar to previous year (79.33% in FY21). 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 19.21% and 18.90% of the total revenue in FY22 and H1FY23 respectively (20.67% of total revenue in FY21). The same is expected to contribute more in coming years. Nevertheless, the focus remains on women's wear comprising sarees and dress materials, being one of the major revenue drivers.

Vulnerability 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. To cope-up with the competition, SSKL has entered E-commerce segment as well by listing the products on their own websites, www.kalamandir.com, www.brandmandir.com and www.kanchivml.com and certain third-party or e-commerce platforms.
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 Silks etc. But SSKL's strong brand image in the saree retailing sector has helped it to manage competition by attracting healthy footfall.

Liquidity: Adequate

The liquidity position of the company is adequate characterized by sufficient cushion in accruals of ₹86.74 crore in FY22 vis-à-vis repayment obligations of Rs.38.63 crore in FY23. However, the company's reliance on bank borrowings is high resulting in highly utilized bank limits. Adequate liquidity is supported by above unity current ratio. The company had free cash balance to the tune of ₹8.63 crore as on March 31, 2022, and ₹8.23 crore as on September 30,2022 at its disposal to service its debt obligations in the short-term.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Retail
Policy on Withdrawal of Ratings

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"," KRR" and "Varamahalakshmi". SSKL has a network of 53 retail outlets in prevalent commercial centres in South India as on January 24,2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	677.25	1,129.32	648.92
PBILDT	62.36	138.14	96.85
PAT	5.13	57.69	46.01
Overall gearing (times)	1.20	1.18	1.23
Interest coverage (times)	2.27	4.82	5.21

A: Audited; UA: Un Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	166.50	CARE A-; Stable
Fund-based - LT-Stand by Limits		-	-	-	6.50	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	May 2027	76.44	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	76.44	CARE A-; Stable	-	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	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)
2	Fund-based - LT-Cash Credit	LT	166.50	CARE A-; Stable	-	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	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)
3	Fund-based - LT-Stand by Limits	LT	6.50	CARE A-; Stable	-	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	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)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. TOL/Adj. TNW	TOL/Adj. TNW<1.75x
II. Interest Coverage	Interest coverage >2.5x

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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