# Sai Silks (Kalamandir) Limited (Revised)
## November 08, 2021

**Rating**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 249.44<br>(Enhanced from 154.04) | CARE A-; Stable<br>(Single A Minus; Outlook: Stable) | Reaffirmed; Outlook revised from Negative |
| **Total Bank Facilities** | **249.44**<br>**(Rs. Two Hundred Forty-Nine Crore and Forty-Four Lakhs Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in the outlook is on account of improvement in overall operational and financial performance of the company during H1FY21 with gradual recovery in footfalls and sales in its retail showrooms. The ratings continue to remain underpinned by experienced and resourceful promoters, widespread market presence corroborated by a prevalent brand name, long-standing supplier relations, satisfactory capital structure and stable industry growth prospects. The rating strengths are however partially offset by high reliance on bank borrowings, concentrated revenue profile and operating margins vulnerable to intense competition amidst fragmented readymade garments industry. Ratings also take cognizance of significant impact of COVID-19 pandemic on the business operations of the company resulting in moderation of performance during FY21 (FY refers to the period April 01 to March 31)*

**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.
- ✓ Operating cycle improving to less than 90 days.
- ✓ 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:**

- × Deterioration in overall gearing above 1.25x going forward.
- × Decrease in PBILDT margin below 5% in future years.

**Detailed description of the key rating drivers**

***Key Rating Strengths***

***Improved operations in H1FY22 after subdued performance during FY21***

There has been a significant improvement in total operating income (TOI) to around d Rs. 450 crore during H1FY22 backed by healthy demand and gradual opening of stores post lockdown due to COVID-19. The company had witnessed significant decline in TOI during FY21 reporting a de-growth of 42% y-o-y on account of severe impact of COVID-19 pandemic and lockdowns on retail apparel industry. PBILDT levels also declined to Rs. 54.72 crore in FY21 as against Rs. 99.84 crore in FY20. Although, the PBILDT margins remained at similar levels at 8.06% in FY21 (8.48% in FY20) with efficient cost management by the company. Nevertheless, with relaxation of COVID related restrictions, decline in COVID cases coupled with pent up demand has boosted the sales of the company as evident from revenue registered during H1FY22. The company is expecting a steady growth in sales from all its stores in H2FY22 backed by festival and wedding season during the period.

***Experienced and resourceful promoters with adequate industry exposure***

The Kalamandir group was founded by Mr. Chalavadi N K Durga Prasad and family in 2005. The promoters have wide experience and a successful track record of establishing and operating retail garments 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.

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

***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)" catering to different set of customers. Company has been enhancing its market position by consistently expanding its scale of operations year over year. All the operating stores are 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 increase its customer base.

***Long-standing supplier relations***
The company procures majority of its products (around 90%) from its group company 'Sai Retail India Limited' (SRIL), which in turns purchases from manufactures / suppliers all over the country and ensures regular supply at competitive prices. SSKL benefits from SRIL's long established relations with suppliers and its widespread vendor network across India.

***Satisfactory capital structure albeit moderation in debt coverage indicators***
The capital structure of the company represented by overall gearing remained below unity though marginally deteriorated to 0.91x as on March 31, 2021 from 0.74x as on March 31, 2020 due to increase in total debt. Company had availed additional working capital limits and GECL loan to meet its fixed expenses and other operational requirements. The company's debt-protection metrics represented by interest coverage and Total debt/GCA moderated during FY21 on account of increase in total debt levels and decline in operating profits and gross accruals. Interest coverage ratio deteriorated from 4.03x to 2.40x and TDGCA moderated from 2.67x to 7.57x y-o-y during FY21.

***Stable growth prospects of retail apparel business***
Demand of discretionary products is expected to recover from Q2FY22 with gradual opening of stores supported by continued favorable progress on the vaccination rollout and a material shift witnessed towards online shopping. However, demand recovery is contingent upon the occurrence and impact of third wave of Covid-19, if any. Subsequently, fashion retailers are expected to grow by 15-20% in FY22 on a low base (y-o-y decline of 35-40% in FY21) with partial recovery in operating margins. The widespread disruption brought about by the outbreak of Covid-19 pandemic across the globe has also adversely impacted the performance of many retailing companies. A cyclical downturn, fall in purchasing power and low ease of consumer credit could hurt the overall industry's prospects.

***Key Rating Weaknesses***

***High reliance on bank borrowings***
The company operates in a highly working capital-intensive industry wherein the requirement for inventory remains high. Also, the industry is governed by seasonality. SSKL currently operates 45 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 operating cycle of the company elongated to 140 days in FY21 as against 73 days in FY20 mainly because of elongation of inventory days from 124 days in FY20 to 219 days in FY21 marred by slow movement of inventory in FY21. Resultantly, the company's reliance on working capital bank borrowings was high. However, the cash and carry nature of the business and the credit period available from suppliers lend a certain degree of comfort to the liquidity profile.

***Concentrated revenue profile***
The company although retails in all major segments viz. women's, men's and kids' wear, major revenue is derived from the women's wear which contributed about 80% of sales in FY21. Thus, the revenue profile of the company is exposed to segment concentration risk. 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 20 of total revenue in FY21 and the same is expected to contribute more in the coming years. Nevertheless, the focus continues to remain on women's wear comprising sarees and dress materials, being one of the major demand and profitability 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 face competition by attracting healthy footfalls.

**Liquidity: Adequate**
The liquidity position of the company is adequate characterized by sufficient cushion in accruals of around Rs. 29 vis-à-vis repayment obligations of around Rs. 12 crore. However, the company's reliance on bank borrowings is high with an average utilization of working capital limits being at 86% in the last 12 months ended September 30, 2021. Liquidity is supported by above unity current ratio and cash and liquid investments to the tune of Rs.3.16 crore as on March 31, 2021. (Rs. 12.00 crore as on September 30, 2021).

**Analytical approach:** Standalone

**Applicable Criteria**
*Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings*
*CARE's Policy on Default Recognition*
*Financial ratios –Non-Financial Sector*
*Liquidity Analysis of Non-Financial Sector Entities*
*Criteria for Short Term Instruments*
*CARE's Methodology – Organized Retail Companies*

**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". SSKL has a network of 45 retail outlets in prevalent commercial centers in South India as on September 30, 2021.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | H1FY22 (UA) |
|---|---|---|---|
| Total operating income | 1177.42 | 678.63 | *449.29* |
| PBILDT | 99.84 | 54.72 | *48.51* |
| PAT | 45.59 | 8.63 | - |
| Overall gearing (times) | 0.74 | 0.91 | - |
| Interest coverage (times) | 4.03 | 2.40 | 4.87 |

*A: Audited UA: Unaudited*

**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 | 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 | - | - | - | TL-1: Dec 2025<br>TL-2: Nov 2023<br>TL-3: Jun 2024<br>TL-4: May 2027<br>TL-5: Jan 2026<br>TL-6: May 2022<br>TL-7: Apr 2023 | 76.44 | CARE A-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | - | 142.50 | CARE A-; Stable |
| Fund-based - LT-Stand by Limits | - | - | - | - | 30.50 | CARE A-; 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 | 76.44 | CARE A-; Stable | 1)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) | 1)CARE BBB+; Stable (04-Jun-18) |
| 2 | Fund-based - LT-Cash Credit | LT | 142.50 | CARE A-; Stable | 1)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) | 1)CARE BBB+; Stable (04-Jun-18) |
| 3 | Fund-based - LT-Stand by Limits | LT | 30.50 | CARE A-; Stable | 1)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) | 1)CARE BBB+; Stable (04-Jun-18) |

**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-Stand by Limits | Simple |
| 3 | 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 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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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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