Sai Silks (kalamandir) Limited

December 28,2023

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Long Term Bank Facilities	-	-	Reaffirmed at CARE A-; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A-; Stable' [Single A; Outlook: Stable] assigned to the bank facilities of Sai Silks (Kalamandir) Limited with immediate effect. The above action has been taken at the request of SSKL. and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

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, improvement in overall operational in FY22 and improved financial performance of the company during FY23 (FY refers to the period April 01 to March 31), satisfactory capital structure and debt coverage indicators albeit moderation, adequate liquidity position and stable industry growth prospect of retail apparels. The rating also factors in SSKLs 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: Not Applicable

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

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.

Growth in total operating income albeit improvement in profitability: During FY23, SSKL's total operating income and profit level margins improved with TOI growth of about ~20% to ₹1,351.47 crore as against ₹1129.32 crore in FY22. This is majorly on the back of increased footfalls along with growing online sales, increase in income levels and changing lifestyle and fashion preference of customers with wide range of store formats of SSKL in order to cater all segments in market. With the increase in sales during FY23, the PBILDT and PAT levels also improved to Rs.212.54 crore and Rs.97.59 crore in FY23 as against Rs. 138.14 crore and Rs. 77.25 crore in FY22, alongside the margins improving to 15.73% and 7.22% in FY23 (PY: 12.23% and 5.11%).

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

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

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 (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.

Satisfactory capital structure and debt coverage indicators albeit moderation: The capital structure of the company remained satisfactory albeit moderation as of March 31, 2023. The overall gearing of SSKL deteriorated to 1.34x as on March 31,2023 from 1.18x as on March 31,2022. This is on the back of significant increase in debt levels during FY23 mostly the lease liability which is due to increase in number of stores in FY23 along with increase in working capital facilities given the increase in scale of operations. However, the overall gearing continues to remain moderately leveraged.

The company's debt-protection metrics represented by interest coverage and Total debt/GCA (TDGCA) also moderated during FY23. TDGCA witnessed improved to 3.82x as of March 31,2023 from 4.00x as of March 31,2022 due to increase in debt levels against GCA in FY23. Additionally, the interest coverage ratio deteriorated marginally from 4.82x during FY22 to 4.68x during FY23. Other debt protection metrics continued to remain at similar level. Further, with successful issuance of IPO will likely result in deleveraging to certain extent in coming years.

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 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 54 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 increased from 162 days in FY22 to 197 days in FY23. The inventory level remained high at Rs. 689.14 crore as on March 31, 2023, as against Rs. 476.16 crore as on March 31, 2022. Therefore, the operating cycle of the company remain elongated to 140 days in FY23 as against 120 days in FY22. Resultantly, the company's reliance on working capital bank borrowings was high with the average utilization of working capital limits at 88 - 90% for 12-month period ending September 30, 2023.

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 ₹137.62 crore in FY23 vis-à-vis repayment obligations of Rs.47.03 crore in FY24. 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 ₹4.62 crore as on March 31, 2023 at its disposal to service its debt obligations in the short-term.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,129.32	1,351.47	636.64
PBILDT	138.14	212.54	104.81
PAT	57.69	97.59	40.15
Overall gearing (times)	1.18	1.34	NA
Interest coverage (times)	4.82	4.68	3.83

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

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: 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Stand by Limits		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	May 2027	0.00	Withdrawn

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (06-Feb-23)	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A-; Stable (06-Feb-23)	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)
3	Fund-based - LT-Stand by Limits	LT	-	-	-	1)CARE A-; Stable (06-Feb-23)	1)CARE A-; Stable (08-Nov-21) 2)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)

Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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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