# Nalli Silk Sarees Private Limited

December 13, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 241.19<br>(Enhanced from 215.26) | CARE BBB+; Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Reaffirmation in the rating assigned to bank facilities of Nalli Silk Sarees Private Limited (NSSPL) continues to derive strength from the long operational track record with the strong brand image of 'Nalli', geographically diversified revenue stream, established relationship with a large supplier base, and the adequate liquidity position.

The rating also takes cognisance of the comfortable working capital cycle amidst operating in working capital intensive operations in FY24 (FY refers to period from April 01 to March 31).

However, the rating strengths are partially offset by the moderate scale of operations, which declined in FY24 coupled with decline in profitability in FY24, primarily due to normalisation of post COVID-19 pent-up demand and related footfall, moderate capital structure, driven by debt-led growth, the presence in a highly competitive and fragmented saree retail business, which is vulnerable to changes in fashion trends, consumer preferences, and economic cycles.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Significant increase in the scale of operation with total operating income (TOI) increasing to ₹700 crore and above while maintaining a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 11% on a sustained basis.
- Overall gearing and total debt to gross cash accruals (TD/ GCA) based on net debt falling below 1x and 3x, respectively, going forward.

**Negative factors**

- Any significant decline in TOI or profits by over 30% y-o-y, going forward.
- Total outside liabilities to tangible net worth (TOL/TNW) ratio deteriorating above 3x in future.

## Analytical approach: Standalone

## Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that NSSPL will continue to benefit from its established brand name, favourable demand outlook, and geographically diversified presence.

## Detailed description of key rating drivers:

## Key strengths

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

The 'Nalli' brand was established in 1928 by the late Nalli Chinnasamy Chetty with a major focus on the silk saree business. In the last nine decades, the 'Nalli' brand has become synonymous with silk sarees, establishing a strong brand recognition and loyalty across India, especially in south India. NSSPL has 31 showrooms at prime locations of 12 major Indian cities with a cumulative retail space of ~3 lakh square feet. The showrooms are popular among almost all economic segments and consistently attract a large footfall both in on and off-seasons. The brand has established its presence across the country and even abroad, through its group entities, which leverage and thread on the common brand name of 'Nalli'. Owing to its long presence in the industry, NSSPL has built strong relationships with vendors and currently has access to a supplier base of over 4,500 suppliers.

### Comfortable operating cycle

Although NSSPL operates in a highly working capital intensive industry governed by seasonality, wherein the requirement for inventory generally remains high, the company has a comfortable working capital cycle owing to efficient inventory management and favourable credit terms received from its creditor. Given the cash-and-carry nature of the business, the credit period available

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

from suppliers and the sufficient headroom available in the form of cash and cash equivalents results in a favourable operating cycle of less of 42 days, resulting in low reliance on working capital bank borrowings.

**Experienced promoters and NSSPL's established track record of operations**
With over three decades of operational track record exclusively in the silk sarees, cloth and piece-goods, women's apparels, ready-to-wear menswear, jewellery and accessories, NSSPL has established itself as a premium women's and men's lifestyle brand for clothing and accessories. Promoters' rich industry experience has been instrumental in building the company's brand and market position over the years. They are ably assisted by a team of professionals and designers.

**Favourable long-term growth prospects of the branded apparel business**
The fashion retail sector has been facing demand slowdown due to inflationary pressures, while demand improvement is expected from the upcoming months with the onset of the wedding and festive season. Notwithstanding near-term challenges in terms of inflationary pressures, the trend of increasing urbanisation is likely to augur well for long-term growth prospects of the branded apparel segment in India. In the long term, the organised apparel retail market is likely to exhibit good growth due to the expectation of increased consumer spending, driven by the 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

**Moderate scale of operations with decline in profitability**
NSSPL's scale of operations marked by its TOI declined at FY23 level at ₹633.56 crore in FY24. While there was significant traction in sales in FY23 due to post pandemic pent-up demand, sales in FY24 remained stable due to increased competition from domestic and global players and lower footfall with demand normalisation resulting in lower-than-expected sales from new stores opened in FY24 and de-growth observed at some of its existing stores.
NSSPL's PBILDT margin also moderated to 9.03% in FY24 (FY23: 11.55%) owing to lower absorption of incremental overhead expenses such as rental cost, commission expense, employee cost and marketing expense with stable scale of operations. In the current year, NSSPL achieved sales of ~₹278 crore in H1FY25. With the onset of the wedding and festive season, scale of operations and profitability are expected to recover to some extent.

**Moderate capital structure**
In view of the recently completed capex at Delhi pertaining to the purchase of showroom and its renovation, the company incurred a cost of ₹130 crore, which was ~75% debt-funded. Resultantly, overall gearing of the company stood moderate at 1.52x as on March 31, 2024, although it remained in similar lines at 1.53x as on March 31, 2023, with accretion of profits to reserve. Going forward, NSSPL does not plan to avail major term debt. However, regular capex w.r.t renovation, and store extension, among others, may necessitate moderate reliance on term loans. The company's ability to notably reduce its term debt will remain a key monitorable.

**Presence in a highly competitive and fragmented textile retail industry, which may put pressure on profitability**
The retail business has low entry barriers and is highly competitive due to the presence of innumerable unorganised players in the industry. The industry is extremely varied, with the hand-spun and hand-woven sector at one end of the spectrum and the capital-intensive sophisticated mill sector at the other. It is also inherently vulnerable to changes in fashion trends, consumer spending habits, and economic cycles. 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. Furthermore, the large expansion by retailers leads to pressure on their PBILDT margins, as earnings from existing stores do not adequately offset gestation losses from the high proportion of new stores added. However, with 'Nalli' 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 manage competition by attracting healthy footfalls.

**Liquidity**: Adequate

The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals against repayment obligations. The company has sufficient headroom available in the form of cash and cash equivalents to the tune of ₹65 crore as on March 31, 2024, and ₹45-60 crore as on November 30, 2024, and low working capital utilisation levels of ~66% in the last 12 months ended November 30, 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks**: Not applicable

## Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Financial Ratios – Non financial Sector]
[Retail]

[Wholesale Trading](#)

## About the company and industry

### Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Consumer discretionary | Consumer services | Retailing | Distributors |

NSSPL is engaged in retailing silk sarees, cloth and piece-goods, women 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 31 showrooms, spread across 12 cities (Chennai, Delhi, Mumbai, Bengaluru, Hyderabad, Coimbatore, Kolkata, Kanchipuram, Ahmedabad, Kochi, Madhya Pradesh, and Puducherry).

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | March 31, 2024 (A) |
|---|---|---|---|
| Total operating income | 526.86 | 678.14 | 633.56 |
| PBILDT | 50.26 | 78.33 | 57.19 |
| PAT | 22.22 | 37.97 | 18.37 |
| Overall gearing (times) | 1.93 | 1.53 | 1.52 |
| Interest coverage (times) | 4.12 | 4.17 | 2.51 |

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash credit | | - | - | - | 90.00 | CARE BBB+; Stable |
| Fund-based - LT-Term loan | | - | - | 2036 | 151.19 | CARE BBB+; Stable |

### Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term loan | LT | 151.19 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (01-Dec-23) | 1)CARE BBB+; Stable (27-Dec-22) | 1)CARE BBB+; Stable (04-Mar-22) |
| 2 | Fund-based - LT-Cash credit | LT | 90.00 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (01-Dec-23) | 1)CARE BBB+; Stable (27-Dec-22) | 1)CARE BBB+; Stable (04-Mar-22) |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

### Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash credit | Simple |
| 2 | Fund-based - LT-Term loan | Simple |

### Annexure-5: Lender details

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

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

## Contact us

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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