

## Sathy Silks Private Limited

January 28, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	319.85	CARE BB+; Stable; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Downgraded from CARE BBB-; Stable

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated August 5, 2024, placed the rating of Sathy Silks Private Limited (SSPL) under the 'issuer non-cooperating' category as SSPL had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. SSPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a email dated January 15, 2025. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The revision in the rating is pursuant to Securities and Exchange Board of India (SEBI)'s circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the Credit rating agency (CRA) shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

The rating continues to be constrained by moderate capital structure, SSPL's presence in the competitive and fragmented retail industry, and profitability margins exposed to volatility in gold prices and cotton prices. The rating, however, takes into account, the promoters' long-standing experience in the textile and jewellery retailing business, well-established brand of 'The Chennai Silks' (TCS), and strategic location of the showrooms with an established operational track record. The rating factors in the operational synergies regarding the purchase of textile garments through the group's common procurement network, and a stable financial profile.

**Analytical approach:** Standalone

**Outlook:** Stable

**Detailed description of the key rating drivers:**

At the time of last rating on August 5, 2024 the following were the rating strengths and weaknesses.

### Key weaknesses

#### Growth in scale of operations in FY23, however, declined profitability

In FY23, SSPL reported income of ₹534.03 crore in FY23 (PY: ₹214.18 crore) owing to the acquisition of the jewellery business of the group entity 'Swathi Traders' effective September 2022 and the commencement of operations of the spinning and knitting project from October 2022. The profitability for FY21 and FY22 was boosted by rental income received from sister concern Swathi Traders. Post the acquisition, SSPL stopped receiving rental income from Swathi Traders, leading to moderation of PBILDT margin to 8.26% in FY23 (PY: 14.23%). The PBILDT margin further moderated to 6.09% in 9mFY24 due to increased overheads in spinning amid lower demand due to slowdown in the industry.

#### Moderate capital structure due to the debt-funded capex

The overall gearing moderated at 2.38x as on March 31, 2023 (PY: 0.97x). The company had incurred debt-funded capex of ₹170 crore funded by term loans of ₹122 crore, unsecured loans of ₹33 crore from the promoters and rest by accruals towards setting up a new unit with 34656 spindles and 24 knitting machines which commenced operations from October 2022. The company also availed COVID-19 loans of ₹24 crore in FY23. Additionally, SSPL has acquired the debt working capital borrowings from "Swathi Traders". The unsecured loans of ₹41.30 crore from the promoters had been subordinated to bank borrowings and treated as quasi equity.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### Highly competitive and fragmented nature of industry

The gold and jewellery and textile retail industry in India are characterised by the presence of a large number of organized and unorganized players, with the share of the organized jewellery retail sector at a mere 20%. Despite being an established brand in the south Indian retail jewellery and textile market, the company is exposed to intense competition from some of the other regional players, which could lead to pressure on its margins.

### Profitability margins exposed to volatility in gold prices and cotton prices

The company commenced spinning segment from October 2022. The profitability of spinning mills is susceptible to the movement in raw cotton prices, which is the key raw material cotton yarn production. SSPL's profit margins are exposed to the volatile gold prices. The company has to maintain sufficient inventory with a variety of designs to meet the customer's demand, exposing it to the risk of volatile gold prices.

## Key strengths

### Significant experience of the promoter in the textile and jewellery retailing business

N. K. Nandhagopal (S/o A. Kulandaivel, founder of TCS Group), SSPL's Managing Director, has been involved in the textile and jewellery retailing business for more than two decades. He has vast experience in various spheres of the textile and jewellery business, including general management, strategic planning, purchase, marketing, selection of locations, and construction of showrooms among others. He is assisted by senior management executives with considerable experience in similar line of business.

### Leveraging upon well-known brand image of 'The Chennai Silks'

The TCS group has been engaged in the textile retailing business under the brand image of 'Chennai Silks' for nearly five decades. The entire group went through the process of demerger among the family members in April 2010, wherein the then existing businesses had been distributed among the seven sons of Kulandaivel Mudaliar. Post demerger, all textile retail showrooms operated by the brothers continue to operate under the common brand name of 'The Chennai Silks', and all the jewellery retail showrooms operate under the brand name of 'Sree Kumaran Thangamaligai'.

### Strategic location of the showrooms with established operational track record

SSPL currently has four textile showrooms and eight jewellery showrooms. The company's showrooms are divided based on geographies in such a way that there is no competition between two firms belonging to the same Chennai Silks group. All the showrooms are located in prime localities thereby providing higher footfalls. The company has closed two showrooms located at Chittoor and Pudhukottai due to lower footfall.

### Operational synergies derived with regard to purchase of garments

A critical factor in ensuring success of operations of the retailing company is to ensure access to and retention of a strong vendor base. SSPL, in addition to all other erstwhile Chennai Silks entities managed by the brothers, collectively source their purchase requirements through a partnership firm, TCS, which is owned and managed by one of the brothers. TCS acts as a single point of sourcing textiles for all the entities, thereby reducing procurement cost due to efficiencies arising due to the economies of scale.

### Assumptions/Covenants Not applicable

### Environment, social, and governance (ESG) risks Not applicable

## Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Retail](#)

[Wholesale Trading](#)

## About the company and industry

## Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Trading - Textile Products

SSPL, originating from 'The Chennai Silks Group' of concerns, is engaged in the business of textile and jewellery retailing in the brand name, 'The Chennai Silks' and 'Sree Kumaran Thanga Maaligai'. SSPL runs six textile showrooms and eight jewellery showrooms at various locations in and around Tamil Nadu. N. K. Nandhagopal, Managing Director, also manages a textile showroom under Shree Nandhi Silks Private Limited, apart from SSPL. He also manages M/s. Teemage Builders Private Limited (TBPL; rated 'CARE BBB; Stable'), which manufactures precast concrete slabs used in the construction industry.

Brief Financials (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	9mFY24 (UA)
Total operating income	214.35	534.03	818.85
PBILDT	30.49	44.13	49.89
PAT	14.57	11.65	NA
Overall gearing (times)	0.97	2.38	NA
Interest coverage (times)	5.69	2.48	2.55

A: Audited; UA: Un audited; NA: Not available; Note: 'These 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	205.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	March 2030	114.85	CARE BB+; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**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 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-Cash Credit	LT	205.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (05-Aug-24) 2)CARE BBB-; Stable (02-Apr-24)	1)CARE BBB-; Positive (02-May-23) 2)CARE BBB-; Positive (05-Apr-23)	1)CARE BBB-; Stable (12-Apr-22)	-
2	Fund-based - LT-Term Loan	LT	114.85	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (05-Aug-24) 2)CARE BBB-; Stable (02-Apr-24)	1)CARE BBB-; Positive (02-May-23) 2)CARE BBB-; Positive (05-Apr-23)	1)CARE BBB-; Stable (12-Apr-22)	-

\*Issuer did not cooperate; based on best available information.

LT: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-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](mailto:care@careedge.in) for any clarifications.

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### About us:

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