Sai Silks (Kalamandir) Limited

March 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	158.06 (reduced from 167.34)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	158.06 (Rs. One hundred fifty eight crore and six lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the enhanced bank facilities of Sai Silks (Kalamandir) Limited (SSKL) continues to draws strength from experienced and resourceful promoters with adequate industry exposure, established brand image with Company's offerings catering to different customer needs coupled with strong network in southern India's retail textile segment, long standing association with diversified supplier base across the country, stable and modest profitability margins, comfortable capital structure and stable industry outlook. Further, the rating also factors in significant growth in Total Operating Income (TOI) and profits backed by notable increase in stores during FY19 (FY refers to the period April 01 to March 31). However, the rating is constrained by the working capital intensive nature of the operations with continued high reliance on bank borrowings and concentrated revenue profile.

Rating Sensitivities

Positive Factors

- Bring down its working capital utilizations to two-thirds against its current usage
- Improvement in capital structure with overall gearing below 0.75x

Negative Factors

- Drop in PBILDT and PAT margins below 7.50% and 2.00% respectively
- Stretch of operating cycle to 150 days with average inventory days of 180 days

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters with adequate industry exposure

The Kalamandir group was founded by Mr. 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, Mr. Chalavadi N K Durga Prasad is the Chairman & Managing Director of the Company. Further, the Company is financially backed by its promoters who have been infusing funds to support the business activities and expansion plans.

Established brand image with Company's offerings catering to different customer needs coupled with strong network in Southern India retail textile segment

The Company has an established brand name demonstrated by its renowned presence in the South Indian retail industry. The Company under Sai Silks (Kalamandir) Limited has been enhancing its market position by consistently expanding its scale of operations over the years. The Company has a network of total 43 operating retail outlets as on January 15, 2020 across South India including Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. All the stores are favorably located in the prime commercial centers of Telangana, Andhra Pradesh, Karnataka and Tamil Nadu which enables to attract footfall and hence, increase its customer base. The Company follows 4 formats of stores in order to cater to different target customers and increase its reach. The Company markets its products, under the brand names of "Kalamandir (KMR)", "Mandir (MDR)", "Varamahalakshmi (VML)" and "KLM Mall (KLM)". All the operating stores are occupied on leased basis. The reputation that the brand has gathered over the years has enabled the Company to continue to serve its customers with the best quality of products and innovative designs.

The Company offers variety of products across all price ranges and has diversified its product portfolio into kid's wear and men's wear as well. The Company had launched "Mandir" and "Varamahalakshmi" in FY12 to primarily cater to the ultra-rich and High Networth Individual clientele. The KMR brand caters to the middle class and upper middle class strata of society while the KLM is for the mass. The Company, through its recent endeavours of launching "KLM Mall", has tried catering to the price-conscious sections of the society by providing a one-stop shopping experience for men, women and children, thereby increasing its customer base and adding more than 25% to the total revenue as on March 31, 2019 and more than 45% of the total revenue as on Sept. 30, 2019.

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

Long standing association with diversified supplier base across the country
SSKL, by virtue of its long standing presence in the retail industry, has established strong relationship with its suppliers through SRIL. The company procures around 99% of its products from its group company named 'Sai Retail India Limited (SRIL)', which in turns purchases from manufactures / suppliers all over the Country and ensures regularity in supply at competitive prices; which is critical for a retail company. The group company has established a strong relationship with its vast vendor network over the last decade. The supplier base is well-diversified with less than 10% of its total purchases being made by its top 10 suppliers in both FY18 & FY19.

Significant increase in TOI and profits backed by notable increase in stores during FY19 with stable and modest profitability margins
The Company's consistent efforts in opening new stores across South India backed by growing demand for the Company's various brands has resulted in a 51% growth in Total Operating Income (TOI) during FY19 over FY18. The Company had inaugurated 10 new stores in the commercial centers of Andhra Pradesh (each in Vijaywada, Rajamundry and Guntur), Telangana (4 in Hyderabad) and Karnataka (3 in Bangalore) during FY19 resulting in increase in TOI from Rs.692.26 crore during FY18 to Rs.1044.94 crore during FY19. The Operating margin and PAT margin has been modest and range-bound between 7-9% and 2-3% respectively during FY17-19. All the stores are on lease basis with lease rentals on relatively lower side. Net profits for the company almost doubled during FY19 backed by increased income levels. Further, the Company achieved a TOI of Rs.520.73 crore during H1FY20 and a PAT of Rs.18.44 crore.

Comfortable capital structure despite deterioration along with improved debt and interest coverage indicators
The capital structure of the company remained comfortable despite deterioration as on March 31, 2019. Overall gearing level increased to 0.98x as on March 31, 2019 (0.79x as on March 31, 2018). The company availed loans for setting up the new stores which resulted in increased debt levels. Further, there has been equity infusion of Rs.0.05 crore during FY19 (Rs.0.45 crore during FY18). The company has comfortable debt-protection metrics marked by y-o-y improvement in the TDGCA and interest coverage ratio.

Successful in setting up of stores
The Company has been successful in adding up 15 new stores during FY19 and FY20. All the operational stores are revenue generating During FY19, the total fixed assets addition towards setting up stores has been approximately Rs.55.63 crore which was funded thru Rs.29.42 crore of term loans from Banks, Rs.2.00 crore of unsecured loans from related parties and remaining Rs.24.21 crore out of internal accruals.

Stable industry outlook
The Indian retail industry has emerged as one of the most dynamic and fast growing industries due to the entry of several new players in the recent times along with rising income levels, growing aspirations, favourable demographics and easy credit availability. It contributes about 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment and is valued at USD 792 billion as of 2018. Globally, India is fourth largest global destination in the retail space after US, China and Japan. With the expenditure expected to grow by about 10-11% y-o-y till 2021 (has grown at about 10-12% historically), GDP expected to go up to ~7.3% by FY21. Thus, the retail industry to register a growth rate of about 12-14% over the next 3 years and reach about USD 1,150 billion by 2021.

Key Rating Weaknesses
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 81.65% towards net sales in FY19 (90.21% in FY18). 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 18.35% to total revenue in FY19 (9.79% in FY18).

High reliance on Bank borrowing
The Company operates in a highly working capital intensive industry governed by seasonality, wherein the requirement for inventory remains high. The Company currently operating 43 stores as on January 15, 2020 and maintains more than four to five months of inventory in all the stores based on the market demand, which results in high working capital requirement. Nevertheless, the Company's working capital cycle has improved from 95 days in FY18 to 80 days in FY19. However, the inventory days remained on the higher side as the company added new stores and relocated the stocks to other stores. Resultantly, the company's reliance on short term bank borrowings was high with the average utilization of working capital limits of the Company being 93% and maximum being 98% for the last 12 month ended December 2019.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and cash balance of Rs.11.44 crore as on March 31, 2019 in addition to Bank deposits amounting to Rs.12.08 crore as on March 31, 2019. The operating cycle of the company improved though on a higher side during FY19 and stood at 80 days mainly on account of extension in the credit period from supplier and slight improvement in inventory holding period. Its bank limits are utilized to the extent of 93%, supported by current ratio of 1.22x.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation & Factoring Linkages in Ratings
Rating Methodology - Organized Retail Companies
Rating Methodology - Service Sector Companies
Financial Ratios - Non-Financial Sector

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" which follows 4 different formats. SSKL has a network of 43 retail outlets in prevalent commercial centers in South India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu) as on January 15, 2020. During ongoing financial year as on January 15, 2020, the company added four (04) stores in Telangana and two (02) stores in Andhra Pradesh but also shut one of the store in Bangalore. However, the company has added 18 stores all over southern India since April 2018.
Although, the company continues to focus on the sarees segment, primarily mid-range and upper range, it has diversified its portfolio of offerings to include women's dress materials and ready-made apparels for women, men and kids. Apart from this, the company also has a wind power generation plant in Andhra Pradesh aggregating to 2MW capacity for which the company had entered into a PPA with Telangana Southern Power Distribution Company Limited (TSSPDCL) at Rs. 3.50 per unit for a period of 10 years from 2011. The total operating revenue generated from wind power sale in Rs.35.56 crore in FY17, Rs.25.11 crore in FY18 and Rs.41.90 crore in FY19. Further, Mr. Ch. N.K.D Prasad is also the Founder, Chairman & Managing Director of Sai Swarnamandir Jewellers (P) Ltd (SSJPL) and Sai Retail India Limited (SRIPL).

Covenants of rated facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3.*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	692.26	1044.94
PBILDT	53.92	83.61
PAT	15.31	30.33
Overall gearing (times)	0.79	0.98
Interest coverage (times)	2.98	4.10

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2024	42.06	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	109.50	CARE A-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	6.50	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	42.06	CARE A-; Stable	1) CARE A-; Stable (19-Apr-19) 2) CARE A-; Stable (03-Apr-19)	1) CARE BBB+; Stable (04-Jun-18)	1) CARE BBB+; Stable (09-Oct-17)	1) CARE BBB+; Stable (20-Jan-17)
2.	Fund-based - LT-Cash Credit	LT	109.50	CARE A-; Stable	1)CARE A-; Stable (19-Apr-19) 2)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)	1) CARE BBB+; Stable (20-Jan-17)
3.	Fund-based - LT-Working Capital Limits	LT	6.50	CARE A-; Stable	1)CARE A-; Stable (19-Apr-19) 2)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (20-Jan-17)

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

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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