Sai Silks (Kalamandir) Limited

April 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	167.34 (enhanced from Rs. 149.72 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**167.34 (Rupees one hundred and sixty seven crores and thirty four lakh only)**		

Details of instruments/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) draws strength from consistent improvement in the financial performance over the years, FY15-FY18 (FY refers to the period April 01 to March 31) and 9MFY19 along with strong market presence corroborated by inauguration of multiple stores across South India which are expected to reap benefits in the future. The rating continues to remain underpinned by experienced and resourceful promoters with long proven track record of operations in the readymade garment industry, improved capital structure with healthy debt protection metrics, established supplier network, geographically diversified revenue stream in consort with stable industry outlook. However, the rating is constrained by the working capital intensive nature of the operations, reliance on debt-funded capex in lieu of store launches, segment concentration risk with majority of revenue driven from women's wear amidst intense competition from the organised and unorganised players in the textile retail industry. The ability of the company to continue to increase its revenue while improving the profitability margins and manage the working capital requirement efficiently amidst increasing competition in the domestic garment retail industry are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Significantly expanding scale of operations with satisfactory financial performance during FY18 and 9MFY19: The company's relentless efforts in opening new stores across South India backed by growing demand for the company's various brands has resulted in a 28.07% growth in Total Operating Income (TOI) during FY18 over FY17 from Rs. 540.53 crore during FY17 to Rs. 692.26 crore during FY18. Further, based on 9MFY19 provisional financials, the company reported a healthy TOI of over Rs. 750.00 crore with PAT level of Rs. 20.26 crore during the period.

Y-o-y improvement in capital structure with comfortable debt protection metrics: The capital structure of the company has witnessed y-o-y improvement, marked by the overall gearing of 0.79x as on March 31, 2018 (0.90x as on March 31, 2017) aided by increase in networth on account of equity infusions of Rs. 4.50 crore made by promoters as on March 31, 2018 alongwith accretion of profits to reserves despite moderate increase in total debt levels.
The TDGCA was stable at 4.27x during FY18 (4.32x during FY17) on account of improved cash accruals. The interest coverage ratio has also improved on account of increase in PBILDT in absolute terms. The company has adequate cash accruals at its disposal to service its debt obligations in the short-term.

Experienced and resourceful promoters with proven track record in the industry: The Kalamandir group was founded by Mr. Chalavadi N K Durga Prasad (Chairman and Managing Director) 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. The company is financially backed by its promoters who regularly infuse funds to support the company's growing scale of operations. The promoters have infused equity to the tune of Rs. 4.50 crore as on March 31, 2018 in order to facilitate the envisaged capex pertaining to new stores inaugurated during the year.

Established player across South India corroborated by growing market penetration: The company has an established brand name manifested by its time-honoured presence in the South Indian retail industry. The company has been enhancing its market position by relentlessly expanding its scale of operations over the years. SSKL has a network of around 40 retail outlets as on December 31, 2018 in prevalent commercial centres across South India including Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. The company markets its products, primarily retailing of women wear (sarees), under the brand names of "Kalamandir", "Mandir", "Varamahalakshmi" and "KLM Mall".

Long-standing supplier relations: SSKL, by virtue of its long standing presence in the retail industry, has established strong relationship with its suppliers. The company procures around 99% of its products from its group company, Sai

Retail India Private Limited (SRIPL), which ensures regularity in supply at competitive prices; which is critical for a retail company. SRIPL has established a strong relationship with its vast vendor network over the last decade.

Geographically diversified revenue stream: During FY18, the company has commenced its operations in 6 new stores across Andhra Pradesh and Telangana. All the stores of SSKL are favourably located in the prime commercial centres of Telangana, Andhra Pradesh, Karnataka and Tamil Nadu which enables the company to attract footfall and hence, increase its customer base. The company's revenue profile is geographically diversified with major revenue contribution of 40% being generated from stores in Telangana followed by 33% from Andhra Pradesh, 15% from Karnataka and 12% from Tamil Nadu.

Satisfactory liquidity profile with improvement in operating cycle: Although the company operates in a working capital intensive industry wherein the liquidity position is usually stretched, it has been generating sufficient cash accruals vis-à-vis the repayment obligations. The average utilization of working capital limit remained at 88.12% for the last 12 months ended in February 2019. Nevertheless, the company has a comfortable short-term liquidity position with working capital cycle improving to 94 days in FY18 from 119 days in FY17 on account of better inventory management. The company had GCA of Rs. 26.26 crore in FY18. The current ratio of SSKL stands at 1.16x with free cash balance of Rs. 2.21 crore as on March 31, 2018.

Stable Industry Outlook: Indian retail industry accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. Overall credit profile of brick and mortar retail companies is expected to remain stable over the medium to long term given the bright prospects of the non-urban customers still preferring this format for shopping as opposed to e-commerce retail.

Key Rating Weaknesses

Diversified albeit concentrated revenue profile: SSKL mainly retails in women's wear segments (sarees and dress materials), men's wear and kid's wear. SSKL derives its major revenue from the women's wear segment which contributed 90.21% towards net sales in FY18 (94.44% in FY17). The company had recently diversified its product portfolio in 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. Nevertheless, the focus still remains on women's wear comprising of sarees and dress materials.

Reliance on Debt-funded capex for store launches during FY18-FY19: The company had undertaken capex amounting to Rs. 95 crore toward opening of new stores during the period FY18-FY19 partially funded through a term loan of Rs. 52.00 crore. Although, company has successfully completed opening of envisaged stores, the expected revenue generation from the same remains critical from credit perspective.

Competitive nature of industry: The retail business has low entry barriers and 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.

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology – Retail Sector
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 (un-listed) in May 2009. SSKL has a network of around 40 retail outlets in prevalent commercial centers in South India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu). The company is majorly into retailing of sarees under the brand names "Kalamandir", "Mandir", "KLM Fashions" and "Varamahalakshmi".

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. Mr. Ch. N.K.D Prasad is also the Founder, Chairman & Managing Director of Sai Swarnamandir Jewellers (P) Ltd (SSJPL) and Sai Retail India Pvt Ltd.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	540.53	692.26
PBILDT	48.04	53.89
PAT	14.10	15.31
Overall gearing (times)	0.90	0.79
Interest coverage (times)	2.79	2.97

A-Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

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

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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Annexure-1: Details of Instruments/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	-	-	September, 2023	51.34	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 Instrument/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	51.34	CARE A-; Stable	1)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 (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 (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (20-Jan-17)

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