Sai Silks (Kalamandir) Limited

June 04, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	149.72 (enhanced from 104.20)	**CARE BBB+; Stable [Triple B Plus; Outlook: Stable]**	Reaffirmed
Total	**149.72 (Rs. One Hundred and Forty Nine Crore and Seventy-Two Lakhs only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the long-term bank facilities of Sai Silks (Kalamandir) Limited (SSKL) continues to derive strength from qualified & experienced promoters with long track record in readymade garment industry, strong market position with established brand presence in the southern part of India, established network with the suppliers, diversified revenue stream although concentrated towards women's wear and stable industry outlook. The rating also takes into account improving scale of operations with growth in the total operating income and profits during FY17 (FY refers to the period from April 01 to March 31), comfortable and improving capital structure. However, the rating is constrained by the working capital intensive nature of the operations resulting in elongated operating cycle albeit improvement during FY17 vis-à-vis FY16, low profitability margins with slight decline in FY17 and intense competition from the organised and unorganised players in the textile retail industry.

The ability of the company to increase its revenue and improve the profitability margins and manage the working capital efficiently amidst increasing competition in the domestic garment retail industry are the key rating sensitivities.

Detailed description of the key rating drivers

Key Strengths

Improving scale of operations : Total Operating Income (TOI) of SSKL has witnessed growth trajectory since FY14 with CAGR growth of 8.8% for FY14-17. TOI has increased by around 18% vis-à-vis Rs. 457.25 crore in FY16. Income has increased backed by increased demand for which the company has opened new stores.

Improving and comfortable capital structure with comfortable debt coverage indicators: The capital structure of the company has witnessed improvement y-o-y aided by increase in networth on account of accretion of profits with moderately stable debt levels. The overall gearing level of the company improved from 1.04x as on March 31, 2016 to 0.90x as on March 31, 2017. The company is undertaking additional capex of Rs. 60 crore for opening 7 new showrooms which is being funded through term loan of Rs. 30 crore, equity of Rs. 5 crore and remaining Rs.25 crore through internal accruals. The company has already completed capex of Rs. 50 crore in FY18 and the balance is proposed to be completed in FY19.

Experienced Promoters with long track record and experience in readymade garment industry: The promoters have satisfactory experience and a successful track record of establishing and operating retail textile stores. Mr. Chalavadi N K Durga Prasad is the Founder, Chairman & Managing Director of SSKL. He has over a decade experience in the garment industry. Presently, SSKL has a network of 27 retail outlets in important commercial centres in South India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu) and are majorly into the business of retailing of sarees under the brand name of "Kalamandir", "Mandir", and "Varamahalakshmi".

---

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

Established market position and popular brand names with established network of vendors and suppliers through the group companies : SSKL has a strong market position and is a popular brand name in South India. Strong market position coupled with the established brand helps company to get repeat customers and provides an edge over the competitors. The promoters of SSKL have established strong relationship with its suppliers through its group companies, which is critical factor in ensuring success of the retailing operations. Majority of the company's purchases are from other group companies like Sai Retail India Private Limited (SRIPL).

Revenue diversification from different product segments albeit concentrated towards women's wear : SSKL mainly deals in women's wear segment (sarees and dress materials), men's wear and kid's wear. SSKL derives its major revenues from women's wear segment which contributed around 94.44% towards net sales in FY17. Further, the company has also now gradually enhanced its product portfolio in men's and kid's wear to appeal to wider consumer segment and has also positioned itself as a one-stop-shop for the entire family.

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

Working capital intensive nature of the business albeit improvement in operating cycle: The company generally has to maintain around four to five months of inventory in all the stores according to the market demand, which leads to high working capital requirement. The operating cycle of the company although continues to remain elongated, improved from 143 days in FY16 to 119 days in FY17. The extended working capital cycle has resulted in high utilization of working capital limits with average working capital utilization being nearly 97.5% in the 12 month ended May 30, 2017. The company has also enhanced its working capital limit by Rs. 25 crore.

Low profitability margins with slight decline in FY17: The PBILDT and PAT margin of the company has declined from 9.71% in FY16 to 8.89% in FY17 and from 2.79% in FY16 to 2.61% in FY17 respectively. As the company is primarily into retail trading of clothing, the operating margins remain low.

Competitive 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.

Analytical approach:
Standalone

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, who is a first generation entrepreneur. It was subsequently converted into a private limited company in 2008-09 and then

into a public limited company in May 2009. SSKL has a network of 27 retail outlets in important commercial centers in South India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu) including 2 recently opened stores in Hyderabad in September 2017 and are majorly into the business of retailing of sarees under the brand name of "Kalamandir", "Mandir", and "Varamahalakshmi".

Although the company continues to focus on the sarees segment especially 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 has entered into 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 the Founder, Chairman & Managing Director of SSKL, Sai Swarnamandir Jewellers (P) Ltd (SSJPL) and Sai Retail India (SRI) [*CARE BBB-,Stable*].

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	457.25	540.53
PBILDT	44.42	48.04
PAT	12.77	14.10
Overall gearing (times)	1.04	0.90
PBILDT Interest coverage (times)	2.39	2.79

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

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.*

Analyst Contact:
Name: Ms Nivedita Ghayal
Tel: 0404069000512
Mobile: +919908090944
Email: nivedita.ghayal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	Sept 2023	39.72	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	106.50	CARE BBB+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	3.50	CARE BBB+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	39.72	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (20-Jan-17)	1)CARE BBB+ (30-Dec-15) 2)CARE BBB+ (30-Nov-15) 3)CARE BBB+ (12-Nov-15)
2.	Fund-based - LT-Cash Credit	LT	106.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (20-Jan-17)	1)CARE BBB+ (30-Dec-15) 2)CARE BBB+ (30-Nov-15) 3)CARE BBB+ (12-Nov-15)
3.	Fund-based - LT-Working Capital Limits	LT	3.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (09-Oct-17)	1)CARE BBB+; Stable (20-Jan-17)	1)CARE BBB+ (30-Dec-15) 2)CARE BBB+ (30-Nov-15) 3)CARE BBB+ (12-Nov-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691