

Sai Silks (Kalamandir) Limited

Oct 9, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	104.20 (reduced from 113.58)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Total Facilities	104.20 (Rupees One hundred and Four crore and Twenty lakh 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.

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".

¹Complete definition of the ratings assigned are available at www.careratings.com and 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.

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.

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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	-	-	July 2020	19.20	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	81.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	19.20	CARE BBB+; Stable	-	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)	1)CARE BBB+ (28-Nov-14) 2)CARE BBB (09-Oct-14)
2.	Fund-based - LT-Cash Credit	LT	81.50	CARE BBB+; Stable	-	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)	1)CARE BBB+ (28-Nov-14) 2)CARE BBB (09-Oct-14)
3.	Fund-based - LT-Working	LT	3.50	CARE	-	1)CARE	1)CARE BBB+	1)CARE BBB+

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	Capital Limits			BBB+; Stable		BBB+; Stable (20-Jan-17)	(30-Dec-15) 2)CARE BBB+ (30-Nov-15) 3)CARE BBB+ (12-Nov-15)	(28-Nov-14) 2)CARE BBB (09-Oct-14)

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