No. CARE/HRO/RL/2021-22/1451

Shri Chalavadi N K Durga Prasad
Managing Director
Sai Silks (kalamandir) Limited
6-3-790/8, Flat No.1,
Bathina Apartment Ameerpet,
Hyderabad
Telangana 500016

November 01, 2021

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY21 (Audited) and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	249.44 (Enhanced from 154.04)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Facilities	249.44 (Rs. Two Hundred Forty-Nine Crore and Forty-Four Lakhs Only)		

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document

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

and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by November 03, 2021, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1
Details of Rated Facilities

1. Long Term Facilities
1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	State Bank of India	24.32	Repayable in 48 monthly instalments of Rs. 50.67 Lacs from Jan-2022	Guaranteed Emergency Credit Line (GECL)- loan
2.	State Bank of India	17.99	Repayable in 20 quarterly instalments of Rs. 1.5 crore per quarter starting from Dec-18	Term loan
3.	Canara Bank	15.92	Repayable in 20 quarterly instalments of Rs. 1.1 crore per quarter starting from Jun-19	
4.	Canara Bank	8.00	Repayable in 20 quarterly instalments of Rs. 40.00 Lacs PQ from Jun-2022	Term loan
5.	Canara Bank	5.10	Repayable in 48 monthly instalments of Rs. 10.63 Lacs from Feb-2022	GECL
6.	State Bank of India	4.44	Repayable in 18 monthly instalments of Rs. 55.56 Lacs from Oct-2020	Term loan
7.	HDFC Bank Ltd.	0.67	Repayable in 24 monthly instalments of Rs. 3.53 Lacs from May-2021	
	Total	**76.44**		

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	State Bank of India	101.50	Cash Credit
2.	HDFC Bank Ltd.	25.00	
3.	Canara Bank	16.00	
	Total	**142.50**	

1.C. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Canara Bank	24.00	Standby Line of Credit
2.	State Bank of India	6.50	
	Total	**30.50**	

Total Long-Term Facilities: Rs.249.44 crore

Total Facilities (1.A+1.B+1.C) : Rs.249.44 crore

Annexure 2
Press Release

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[2]	Rating Action
Long Term Bank Facilities	249.44 (Enhanced from 154.04)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	**249.44** **(Rs. Two Hundred Forty-Nine Crore and Forty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook is on account of improvement in overall operational and financial performance of the company during H1FY21 with gradual recovery in footfalls and sales in its retail showrooms. The ratings continue to remain underpinned by experienced and resourceful promoters, widespread market presence corroborated by a prevalent brand name, long-standing supplier relations, satisfactory capital structure and stable industry growth prospects. The rating strengths are however partially offset by high reliance on bank borrowings, concentrated revenue profile and operating margins vulnerable to intense competition amidst fragmented readymade garments industry. Ratings also take cognizance of significant impact of COVID-19 pandemic on the business operations of the company resulting in moderation of performance during FY21 (FY refers to the period April 01 to March 31)

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Significant increase in the scale of operation with TOI increasing to Rs.1,500 crore and above while maintaining a PBILDT margin of minimum 8% on sustained basis.
- ✓ Operating cycle improving to less than 90 days.
- ✓ Increase in gross cash accruals by 20% as well as generation of healthy cash flow from operations on a sustained basis resulting in improvement in its debt coverage indicators.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- × Deterioration in overall gearing above 1.25x going forward.
- × Decrease in PBILDT margin below 5% in future years.

Detailed description of the key rating drivers

Key Rating Strengths

Improved TOI during H1FY22 albeit moderation in financial performance during FY21

There has been a significant improvement in total operating income (TOI) reported by the company during H1FY22 of Rs. 449.29 crore in H1FY22 backed by healthy demand and gradual opening of stores post lockdown due to COVID-19. Although there was a decline in TOI during FY21 by 42% from Rs. 1177.42 crore during FY20 to Rs. Rs. 678.63 crore during FY21 on account of disruptions caused due to outbreak of COVID-19 leading to drastic fall in sales by 70% during H1FY21 vis-à-vis H1FY20. In line with decline in TOI, PBILDT levels declined to Rs. 54.72 crore in FY21 as against Rs. 99.84 crore. However, the PBILDT margins remained at similar levels at 8.06% in FY21 with 8.48% in FY20 on account of cost cutting measures adopted by the company. With the revenues being hit significantly and increase in depreciation expense, the PAT levels and margins were significantly lower at Rs. 8.63 crore and 1.27% during FY21 as against Rs. 45.59 crore and 3.87% during FY20.

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

Experienced and resourceful promoters with adequate industry exposure

The Kalamandir group was founded by Mr. Chalavadi N K Durga Prasad and others in 2005. The promoters have wide experience and a successful track record of establishing and operating retail textile stores across South India. The business operations of the company have benefited from the promoters long established track record and the vast industry network developed over the years. Further, the company is financially backed by its promoters who regularly infuse funds to support the company's growing scale of operations.

Widespread market presence corroborated by a prevalent brand name

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. All the operating stores are occupied on leased basis and 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 follows 4 formats of stores in order to cater to different target customers and increase its reach. SSKL markets its products, under the brand names of "Kalamandir (KMR)", "Mandir (MDR)", "Varamahalakshmi (VML)" and "KLM Mall (KLM)".

Long-standing supplier relations

The company procures majority of its products (around 90%) from its group company '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 other vendor network over the last decade.

Satisfactory capital structure albeit moderation in debt coverage indicators

The capital structure of the company remained satisfactory during FY21. The overall gearing remained below unity though marginally deteriorated to 0.91x as on March 31, 2021 from 0.74x as on March 31, 2020 due to increase in total debt as the company had availed additional working capital sanctions including GECL loan to meet its fixed expenses and other operational requirements. The company's debt-protection metrics represented by interest coverage and Total debt/GCA deteriorated during FY21. The TDGCA moderated from 2.67x during FY20 to 7.57x during FY21 on account of increase in total debt levels and decline in GCA during FY21. Also, the interest coverage ratio deteriorated from 4.03x during FY20 to 2.40x during FY21 on account of decline in PBILDT levels.

Good long-term growth prospects of branded apparel business

Demand of discretionary products is expected to recover from Q2FY22 with gradual opening of stores supported by continued favorable progress on the vaccination rollout and a material shift witnessed towards online shopping. However, demand recovery is contingent upon the occurrence and impact of third wave of Covid-19, if any. Subsequently, fashion retailers are expected to grow by 15-20% in FY22 on a low base (y-o-y decline of 35-40% in FY21) with partial recovery in operating margins. The widespread disruption brought about by the outbreak of Covid-19 pandemic across the globe has also adversely impacted the performance of many retailing companies. A cyclical downturn, fall in purchasing power and low ease of consumer credit could hurt the overall industry's prospects.

Key Rating Weaknesses

High reliance on bank borrowings

The company operates in a highly working capital-intensive industry governed by seasonality, wherein the requirement for inventory remains high. SSKL currently operates 45 stores and incurs significant operational expenditure towards admin and maintenance. Also, all the stores maintain around three to four months of inventory for display purposes based on the market demand, this results in high working capital requirement. The operating cycle of the company elongated to 140 days in FY21 as against 73 days in FY20 mainly because of elongation of inventory days from 124 days in FY20 to 219 days in FY21 due to the averaging effect owing decline in Total operating income in FY21. Resultantly, the company's reliance on working capital bank borrowings was high with the average utilization of working capital limits being 86% for the last 12 months ended September 30, 2021. However, the cash and carry nature of the business and the credit period from suppliers lend a certain degree of comfort to the liquidity profile.

Concentrated revenue profile

The company mainly retails in women's wear segments, men's wear and kid's wear. The company derives its major revenue from the women's wear segment which contributed 79.33% and 79.34% towards net sales in FY21 and Q1FY22 respectively (78.50% in FY20). 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 20.67% and 20.66% of the total revenue in FY21 and Q1FY22 respectively (21.50% to total revenue in FY20). The same is expected to contribute more in the coming years. Nevertheless, the focus remains on women's wear comprising sarees and dress materials, being one of the major revenue drivers.

Operating margins vulnerable to intense competition amidst fragmented readymade garments industry

The retail business has low entry barriers and is 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.

In its key markets of Telangana, Andhra Pradesh and Karnataka, the company faces intense competition from RS Brothers group, Chandana group, J.C. Brothers group, Kalanikethan Silks, Nalli etc. But the SSKL's strong brand image in textile retailing sector has helped it to manage competition by attracting healthy footfalls.

Liquidity: Adequate

The liquidity position of the company is adequate characterized by sufficient cushion in accruals of Rs. 28.80 crore in FY21 vis-à-vis repayment obligations of Rs. 12.07 crore in FY21. However, the company's reliance on bank borrowings is high resulting in highly utilized bank limits. Adequate liquidity is supported by above unity current ratio. The company had a cash and liquid investments to the tune of Rs.3.16 crore as on March 31, 2021 and Rs. 12.00 crore as on September 30, 2021.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
CARE's Methodology – Organized Retail Companies

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 45 retail outlets in prevalent commercial centers in South India as on September 30, 2021.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY21 (A)
Total operating income	1044.94	1177.42	678.63
PBILDT	83.58	99.84	54.72
PAT	30.33	45.59	8.63

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY21 (A)
Overall gearing (times)	0.98	0.74	0.91
Interest coverage (times)	4.22	4.03	2.40

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: 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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	TL-1: Dec 2025 TL-2: Nov 2023 TL-3: Jun 2024 TL-4: May 2027 TL-5: Jan 2026 TL-6: May 2022 TL-7: Apr 2023	76.44	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	142.50	CARE A-; Stable
Fund-based - LT-Stand by Limits	-	-	-	-	30.50	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	76.44	CARE A-; Stable	1)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20)2)CARE A-; Stable (19-Apr-19)3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
2	Fund-based - LT-Cash Credit	LT	142.50	CARE A-; Stable	1)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20)2)CARE A-; Stable (19-Apr-19)3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)
3	Fund-based - LT-Stand by Limits	LT	30.50	CARE A-; Stable	1)CARE A-; Negative (01-Apr-21)	1)CARE A-; Negative (27-Apr-20)	1)CARE A-; Stable (20-Mar-20)2)CARE A-; Stable (19-Apr-19)3)CARE A-; Stable (03-Apr-19)	1)CARE BBB+; Stable (04-Jun-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Stand by Limits	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

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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About CARE Ratings:

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