

## India Ratings Affirms Sai Silks (Kalamandir) at 'IND A-'/Negative

# 22

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By Prateek Goyal

India Ratings and Research (Ind-Ra) has affirmed Sai Silks (Kalamandir) Limited's (SSKM) Long-Term Issuer Rating at 'IND A-' with a Negative Outlook. The instrument-wise details are as follows:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital facilities	-	-	-	INR1,730 (increased from INR1,160)	IND A-/Negative/IND A2+	Affirmed
Term loan	-	-	FY25	INR734.9 (increased from INR430.3)	IND A-/Negative	Affirmed

**Analytical Approach:** Ind-Ra continues to take a consolidated view of the financial and operational profiles of SSKM and its group company Sai Retail India Limited (SRIL; IND A-/Negative), as SSKM procures 100% of its raw material requirement from SRIL, and due to the presence of two common directors in SSKM and SRIL's board. SSKM contributes almost 100% to the revenue and profits of the group. The ratings of SSKM and SRIL continue to move in tandem; a default in one entity might impact the ratings of the other.

Ind-Ra has maintained a Negative Outlook on SSKM, as the consolidated gross interest coverage (operating EBITDA/interest expense) is likely to remain below 3.0x in FY22 (FY21: 2.2x), primarily due to the revenue impact witnessed by the second COVID-19 wave during 1QFY22. However, the company's financial performance in FY22 will be better yoy, on account of an improvement in the quarterly revenue run-rate for the remaining three quarters, leading to

a meaningful recovery in the revenue and operating profits and thus the interest coverage metric on a sequential basis. SRIL's FY21 financials are provisional in nature, and Ind-Ra has reconciled the consolidated financials on the basis of the best available information.

Ind-Ra will continue to monitor the recovery in revenues, consolidated working capital cycle and its impact on SSKM's liquidity and financial position.

## KEY RATING DRIVERS

**Interest Coverage to remain below 3x despite yoy Improvement in FY22:** Ind-Ra believes the company's interest coverage will improve but be restricted at 2.75x-2.9x in FY22 due to the second wave of COVID-19 and higher interest expense. The yoy improvement in the coverage will stem from a gradual revenue recovery, supported by a recovery in sales per square feet, momentum in store rollouts and cost improvement measures. Ind-Ra expects the coverage to improve further to over 3.5x in FY23. The net adjusted leverage (adjusted net debt/operating EBITDAR) is also likely to improve to around 4x in FY22 and reduce below 3.5x by FYE23 on improved profitability. Nonetheless, the continued regional lockdowns or delays in business normalisation remain a major risk and could adversely impact the recovery in credit metrics.

The adjusted interest coverage (operating EBITDAR/gross interest expense + rents) deteriorated to 1.6x in FY21 (FY20: 2.3x) on account of a reduction in the absolute EBITDA. The consolidated gross interest coverage stood at 2.2x in FY21 (FY20: 3.9x). The net leverage deteriorated to 5.1x in FY21 (FY20: 3.0x), driven by an increase in the net debt, as well as lower operating profits.

**Significant Hit to Revenues in FY21; Improvement Likely in FY22 and Normalisation in FY23:** SSKM's revenues fell 42% yoy to INR6,788 million in FY21 (FY20: up 12.4% yoy) due to COVID-19-led disruptions. Apparels being discretionary products, along with the social distancing norms, reduced footfalls in stores, and the prioritisation of spends towards essentials and low-ticket discretionary items caused the revenue decline in FY21. However, the revenue decline in FY21 would have been higher if it was not for a sharp uptick in e-commerce sales and a recovery in customer conversions and basket sizes during 2HFY21.

The consolidated EBITDA margins were stable at 8.8% in FY21 (FY20: 8.8%) due to the cost rationalisation measures undertaken by the company due to COVID-19 such as negotiating for variable rental expenses and reducing employee and other discretionary spends such as advertising and travelling. The company focused on store rationalisation and closed one loss-making store in FY21. The store expansion is likely to resume post business normalcy (no new stores opened in FY21).

The second wave of COVID-19 adversely impacted SSKM's operations during April and May 2021 and halted an otherwise healthy recovery trajectory. 1HFY22 revenues stood at INR4,493 million (1HFY21: INR1,464 million; 1HFY20: INR5,199 million). An extension of local lockdowns or delays in business normalisation continue to be the major risks to the company's performance. Nonetheless, Ind-Ra expects FY22 revenues to show healthy growth over FY21, largely due to base effect with a strong recovery in the profitability and continued cost saving. Revenues and profitability are likely to normalise from FY23.

**Liquidity Indicator - Stretched:** The consolidated cash flow from operations turned negative at INR450 million in FY21 (FY20: INR589 million) due to a decline in the absolute EBITDA, along with a stretched working capital cycle. The net working capital cycle elongated to 423 days in FY21 (FY20: 153 days) primarily due to the disruptions caused by the pandemic and a sharp reduction in payables to INR667 million (INR2,459 million). Trade payables of INR1,060 million were converted into long-term payables during FY21. SSKM's inventory days too remained high at 461 at FYE21 (FYE20: 236) due to a reduction in sales. The receivable days remain negligible since SSKM operates on a cash-and-carry model. SSKM's average utilisation of the fund-based facilities was high at around 95% for the 12 months ended September 2021. SSKM does not have substantial capex plans till the business normalises. The company availed the Reserve Bank of India-prescribed moratorium for its working capital facilities and term loans over March-August 2020. The company

also availed guaranteed emergency credit line loans and other COVID-related loans of over INR500 million to support liquidity in FY21. The consolidated entity had a cash balance of INR43 million at 20 October 2021 (FYE21: INR51 million).

**Established Brand; Experienced Promoters:** SSKM has a strong brand presence across Telangana (42% of FY21 sales), Andhra Pradesh (38.5%), Tamil Nadu (6.5%) and Karnataka (13%) and its promoters have over a decade-long experience in garment retailing. As on 30 September 2021, it had a network of 45 stores in India across four formats – Vara Mahalakshmi (39% of FY21 sales), KLM Fashion Mall (40%), Kalamandir (17%) and Mandir (4%) occupying a total area of 0.6 million square feet.

**Inherent Risks:** High competition in the retail sector and susceptibility to economic cycles continue to constrain the ratings. Furthermore, the company is prone to the general consumption risk associated with the retail industry. A cyclical downturn, fall in purchasing power and low ease of consumer credit could hurt the overall industry’s prospects.

## RATING SENSITIVITIES

**Positive:** An improvement in the liquidity profile from better working capital management, and a rebound in the revenues as per Ind-Ra’s expectations, leading to the gross interest cover increasing above 3x will result in a revision in the Outlook to Stable.

**Negative:** Further deterioration in the working capital cycle leading to a continued stretch in the liquidity, with the gross interest cover being sustained below 3x will result in a negative rating action.

## COMPANY PROFILE

SSKM was established in 2005 as a partnership firm by Chalavadi N K Durga Prasad. It was converted into a public limited company in FY10. SSKM has a network of 45 retail outlets in southern India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu). The company is majorly involved in the business of retailing of sarees under the formats of Kalamandir, Mandir, Varamahalakshmi and KLM Fashion Mall, followed by women’s dress materials and ready-made apparels for women, men and kids. SRIL is a procurement arm of SSKM, which sources goods from exclusive/non-exclusive knitters and weavers based out of various textile cluster of India.

## CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY21 (Provisional)	FY20
Revenue (INR million)	6,788	11,756
EBITDA (INR million)	595	1,035
EBITDA margin (%)	8.8	8.8
Gross interest coverage (x)	2.2	3.9
Adjusted interest coverage (x)	1.6	2.3
Net adjusted leverage (x)	5.1	3.0
Source: SSKM consolidated, Ind-Ra		

## RATING HISTORY

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Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	24 July 2020	26 April 2019
Issuer rating	Long-term	-	IND A-/Negative	IND A-/Negative	IND A-/Stable
Fund-based limits	Long-term/Short-term	INR1,730	IND A-/Negative/IND A2+	IND A-/Negative/IND A2+	IND A-/Stable/IND A2+
Term Loan	Long-term	INR734.9	IND A-/Negative	IND A-/Negative	IND A-/Stable

## BANK WISE FACILITIES DETAILS

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[Click here to see the details](#)

## COMPLEXITY LEVEL OF INSTRUMENTS

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Instrument Type	Complexity Indicator
Fund-based limits	Low
Term loan	Low

For details on complexity level of the instruments please visit <https://www.indiaratings.co.in/complexity-indicators>.

## SOLICITATION DISCLOSURES

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## Applicable Criteria

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[Corporate Rating Methodology](#)

[Parent and Subsidiary Rating Linkage](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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