

Company Overview

Sai Silks (Kalamandir) Limited (SSKL) is among the top 10 retailers of ethnic apparel, particularly sarees, in south India in terms of revenues and profit after tax in Fiscal 2020, 2021, and 2022. Sai Silks (Kalamandir) currently offers a range of ultra-premium and premium sarees ideal for weddings, parties, and daily wear. It sells its apparel products through four different format stores that constitute the front end of the company's marketing. The first store format is the Kalamandir wherein it offers contemporary ethnic fashion for the middle-income groups. These include varieties of sarees such as Tusser, Silk, Kota, Kora, Khadi, Georgette, Cotton, etc. The second format store is Vara Mahalakshmi Silks. Under this format, it offers premium ethnic silk sarees and handlooms for wedding and special occasion wear. These include Banarasi, Patola, Kota, Kanchipuram, Paithani, and Organza. The third format store is the Mandir. Under this format, the company offers very high-end and ultra-premium designer sarees targeting wealthy customers. These include designer sarees such as Banarasi, Patola, Ikat, Kanchipuram, Paithani, and Kuppadam. Finally, the fourth type of format store is the KLM Fashion Mall. This format offers value fashion at affordable prices. These include fusion wear, sarees for daily wear, and western wear for women, men, and children. It has an omnichannel approach and sells its products through physical store formats and through e-commerce channels. It has a dedicated website and also markets through online e-commerce marketplaces. As of July 2023, Sai Silks (Kalamandir) had more than 54 stores in the four south Indian states of Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu. Its stores cover an aggregate area of approximately 603,414 square feet.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding capital expenditure towards setting-up of 30 new stores and two warehouses;
- ⇒ Funding working capital requirements of the company;
- ⇒ Repayment or pre-payment, in full or part, of certain borrowings availed by the company;
- ⇒ General corporate purposes.

Investment Rationale

Well-positioned to leverage growth in the ethnic and value-fashion apparel industry with an omnichannel network

SSKL focuses on spreading India's vibrant culture, traditions, and heritage through its ethnic wear brands. It considers its business model to be scalable and efficient and it generally achieves immediate positive cash flow for its new format stores and achieves break even for capital expenditure incurred for setting up the exclusive format store within a reasonable period from store opening, depending on the store format. SSKL has expanded its presence in online e-commerce marketplace and started selling its products through its own online websites as well as through other third-party online e-commerce websites which provide an omnichannel network to its customers through its online and offline channels. As the pricing of its products is mostly uniform across its own online and offline channels, its customers have the flexibility to purchase its products online or offline through stores. Its increased focus towards e-commerce has expanded the reach of its products and in Fiscal 2023, its sarees were shipped to 25 states and six union territories in India.

Issue Details

Offer Period	20 th Sept, 2023 - 22 nd Sept, 2023
Price Band	Rs. 210 to Rs. 222
Bid Lot	67
Listing	BSE & NSE
Issue Size (no. of shares in mn)	54
Issue Size (Rs. in bn)	12
Face Value (Rs.)	2

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	Motilal Oswal Ltd., HDFC Bank Ltd., Nuvama Wealth Management Ltd.
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Registrar	Bigshare Services Pvt. Ltd
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	95.24%	60.80%
Public	4.76%	39.20%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Sai Silks (Kalamandir) Ltd.

Experienced management, a track record of profitable growth, and an efficient operating model

SSKL has a committed and large senior management team, led by its Managing Director, Nagakanaka Durga Prasad Chalavadi, who has extensive experience in the retail and fashion industry, which positions it well to capitalize on future growth opportunities. Its key managerial personnel, assisted by their teams, have been able to create a curated list of SKUs that have enhanced its brand appeal and continual improvement to its stores has enhanced the shopping experience of its customers. The company has organically grown its operations and has demonstrated increasing revenues (Rs 67.72 crores in FY21 to Rs 135.15 crores in FY23) and profitability on the back of a business model that has resulted in positive cash flows over the years, other than the year that witnessed the impact of the COVID-19 pandemic with prolonged shutdowns. SSKL also has a focused marketing strategy and has engaged popular South Indian actors as its brand ambassadors. Its focus on quality products, variety of products, customer-oriented policies together with its celebrity endorsements have enabled it to develop strong brand recognition and customer loyalty.

Valuation

The Indian apparel market is expected to grow at a CAGR of 21% between FY22 and FY27 on the back of factors like higher brand consciousness, increasing digitization, greater purchasing power and increasing urbanization. The growth of both branded apparel share and organized apparel retail share in the apparel category is expected to outpace the overall category growth. The COVID-19 pandemic gave an impetus to the growth of e-commerce which is expected to become a significant growth driver for the organized market. Sai Silks (Kalamandir) Limited, being a leading brand in South India, has shown strong topline growth in the last two years, displaying the true potential of ethnic wear retailing in India. The company intends to continue its cluster-based expansion model and increase its presence across southern India in order to ensure better operational control over its stores. The company's focus on creating a differentiated shopping experience for various needs and segments of customers through its different format stores as well as the dedicated online portal has been a key factor in increasing the average business per customer and word-of-mouth references. In the retail business where margins are often in single digits and under pressure, SSKL has displayed excellent growth in profit and EBITDA margins. The company also has a high return on equity of around 28% which is likely to sustain the stock at high valuations. For a capital-intensive business, SSKL has also maintained an impressive asset turnover ratio of 1.1x which will give much-needed confidence to the company as it embarks on a massive expansion. **On the upper price band, the issue is valued at a P/E of 27x based on FY2023 earnings which is lower compared to its peers and is reasonable for the retail business where the valuation matrix should only get better from hereon. We, therefore, recommend a SUBSCRIBE rating for the issue.**

Key Risks

- ⇒ SSKL generated substantially all of its sales from stores located in Southern India and any adverse developments affecting its operations in these regions could have an adverse impact on its revenue and results of operations.
- ⇒ Change in customer preferences to purchase products from traditional brick and mortar stores to e-commerce may have an adverse impact on the business, results of operations and financial condition.

**Sai Silks (Kalamandir) Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23
Revenue			
Revenue from Operations	6,772	11,293	13,515
Total Revenue	6,772	11,293	13,515
Expenses			
Purchases of Stock-in-Trade	4,452	8,472	10,365
Changes in inventory	17	(1,093)	(2,130)
Employee benefit expenses	866	1,028	1,408
Impairment of Windmill	0	51	0
Other expenses	815	1,506	1,755
Total Operating Expenses	6,149	9,963	11,398
EBITDA	624	1,331	2,116
Depreciation and Amortization expenses	295	308	410
Other income	18	37	75
EBIT	348	1,059	1,781
Finance costs	274	286	454
Exceptional Item	-	-	-
PBT	73	773	1,327
Current tax	20	213	368
Tax relating to previous years	0	0	1
Deferred Tax charge/ (credit)	2	(18)	(10)
Total tax	22	196	360
PAT	51	577	967
Diluted EPS	0.4	4.8	8.1

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash flow from operating activities	-152	456	412
Cash flow from investing activities	-180	-420	-601
Cash flow from financing activities	194	7	149
Net increase/(decrease) in cash and cash equivalents	-138	43	-40
Cash and cash equivalents at the beginning of the period	181	43	86
Cash and cash equivalents at the end of the period	43	86	46

Source: RHP, BP Equities Research



Sai Silks (Kalamandir) Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	241	241	241
Other Equity	2,189	2,766	3,733
Instruments entirely equity in nature			
Non-controlling interest			
Total Equity	2,430	3,007	3,973
Non-Current Liabilities			
Financial Liabilities			
(i) Borrowings	574	487	654
(ii) Lease Liabilities	467	690	1,664
(iii) Other Financial Liabilities	6	11	27
Provisions	30	25	46
Deferred tax liabilities (net)	145	128	115
Other non current liabilities	-	-	-
Current Liabilities			
Financial Liabilities			
(i) Borrowings	1,599	2,118	2,801
(ii) Lease Liabilities	154	176	140
(iii) Trade Payable	1,076	1,291	2,300
(iv) Other financial liabilities	126	253	318
Current tax liabilities	18	212	122
Provisions	2	2	5
Other current liabilities	30	24	38
Total Current Liabilities	3,003	4,077	5,725
Total liabilities	4,224	5,418	8,231
Total Equity and Liabilities	6,654	8,425	12,205
Assets			
Non-Current Assets			
Property, plant and equipment	1,587	1,632	2,047
Capital work in Progress	21		
Right of Use assets	567	784	1,693
Other Intangible Assets	98	76	55
Financial Assets			
Other Financial Assets	234	238	276
Deferred tax assets(net)			
Other non current assets	54	87	86
Total Non current assets	2,561	2,817	4,157
Current Assets			
Inventories	3,670	4,764	6,897
Financial Assets			
(i) Investments			
(ii) Cash and cash equivalents	229	470	497
(iii) Trade Receivables	23	19	29
(iv) Loans	55	162	344
(v) Other Financial Assets	1	3	9
Other current assets	116	189	271
Total Current Assets	4,093	5,608	8,047
Total Assets	6,654	8,425	12,205

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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