



DEVENCHOKSEY
RESEARCH

SAI SILKS (KALAMANDIR) LIMITED

IPO NOTE

20th September 2023

Sai Silks (Kalamandir) Ltd.

Issue Opens On
 September 20, 2023

Issue Closes On
 September 22, 2023

Price Band (INR)
 210-222

Issue Size (INR Mn)
 12,000

Rating
SUBSCRIBE

Sai Silks (Kalamandir) [SSKL] is amongst 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. Through their four store formats, i.e., Kalamandir, Vara Mahalakshmi Silks, Mandir, and KLM Fashion Mall, the company offers its products to various segments of the market that include premium ethnic fashion, ethnic fashion for middle income and value-fashion. As of July 31, 2023, we operated 54 stores in four major south Indian states, i.e., Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. Its revenue for FY23 was Rs.13,514.69 MN, with a profit after tax of Rs. 975.88 Mn.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	54,144,000
Net offer (# shares)	54,144,000
Price band (INR)	210-222
Post issue MCAP (INR Mn.)	32,216-34,057

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	September 22, 2023
Finalization of Basis of Allotment with Stock Exchange	On or about 27 th Sep' 2023
Initiation of Refunds	On or about 29 th Sep' 2022
Credit of Equity Shares to Demat accounts	On or about 3 rd Oct' 2022
Commencement of Trading of Eq.shares on NSE	On or about 04 th Oct' 2023

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%
QIB	27,072,000	6010	50%
NIB	8,121,600	1803	15%
Retail	18,950,400	4207	35%
Net Offer	4,09,83,607	12,019	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
a) To fund the capital expenditure towards 30 new stores and 2 new warehouses
b) To fund working capital, repayment/pre-payment of borrowings

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	95.2%	60.8%
Others	4.8%	39.2%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY21	FY22	FY23
Revenue	6,772	11,293	13,514
EBITDA	623.61	1330	2125
EBITDA Margin	15.7%	11.7%	9.2%
PAT	51	576	975
PAT Margin	0.8%	5.1%	7.2%
Net Worth	2429	3006	3973
RONW	2.1%	19.1%	24.5%

Source: IPO Prospectus, * Restated Statement

Sai Silks (Kalamandir) Ltd.

Company Overview

SSKL is in the retail business majorly selling sarees and other ethnic wear in the South India. The company has a network of 54 stores across Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. The company offers a diverse range of products including premium sarees, lehengas, men and children's ethnic wear. The company follows a cluster based approach in opening their stores.

The company was started in 2005 with 1 store of 3200 square feet and now operates 54 stores across 12 cities. The company operates four formats stores: Kalamandir, Varalakshmi Silks, KLM Fashion Mall. The company has opened 12 new stores in last 3 years across formats. The company has a total floor area of approx. 6,03,000 sqfeet. The company has 5.98 million customers in India.

The company is founded by Nagakanaka Durga Prasad Chalavadi (promoter), who is a first generation entrepreneur. He has over 18 years of experience in retail business.

Timeline of the company:

- 2005: First store operational
- 2008: SSKL expands to AP & Karanatak
- 2011: First Premium Mandir & Varamahalskhmi stores operational
- 2017: First KLM Fashion Mall store operational
- 2022: Achieved 175MN Inr (~1%) of Online Revenue

INVESTMENT RATIONALE

- First saree retailer to come out with an IPO with an unique business model
- Scalable platform with a proven track record of growth and market dominance
- SSKL is the leading seller of sarees in South India, with the new store openings planned in Chennai, the company will also be able to capitalize on Tamil Nadu market.
- Unique cluster based approach towards store opening, leading to efficiencies from inventory rotation across stores. This would further help the company to increase EBIDTA and PAT margins
- Repayment of debt and well funded company will be able to source the sarees and other apparels at a better price and can result in good margins on a scale
- Data Driven decision making will ensure better inventor management, better understanding of consumer buying patterns to reduce the redundant stocks and slow moving designs and patterns
- Online model to bring in revenues in the futures as presence expands, currently online is only ~1% of revenues, Indian diaspora in UAE, USA, Europe and Australia have good top of the mind recall and have a strong brand loyalty
- Experienced management team, backed by a strong board and marquee shareholders, along with strong culture of compliance
- Highest per sq.. 22,397 realization of Rs. in the industry
- Presence across all price points with a target customers from below middle class to middle class to premium segment
- Generating positive cash flows
- Good ROE of 27.96% and ROCE of 23.55%

Sai Silks (Kalamandir) Ltd.

Key Strengths

- Data Driven Company, using data analytics for customer preferences, and inventory stocking
- Over 18 years of retail experience
- Cluster based approach for store opening
- Cluster based model by establishing large warehouses in major cities and penetrate in each city length and breadth of the city to get maximum advantage of stock management
- Opening minimum of 5 stores every year
- Four formats to cater to all segments of customers
- More than 6 lakh sq.. of store space with highest per sq.. realization of more than Rs. 22,000
- 5.98 million customer base

Key Risks

- Any downturn in the economy to impact retail spends.
- Not able to expand in the right time across the major States the company has currently presence in.

Outlook and Valuation:

SSKL is one of the leading companies dealing in sarees in Southern India. The company has reported healthy and consistent financial performance with a Net Profit of INR 577 Mn in FY22 and INR 976 Mn in FY23. Revenue of the company is expected to improve on the basis of new stores being launched, and foray into ecommerce business. As the company grows and perfects its operational efficiency resulting EBITDA margins can be higher.

SSKL's IPO size is ~INR 12,000 Mn. The price band of the issue is INR 210-222 per share. On the upper price band of INR 222 and EPS of INR 8.11 for FY23, the P/E ratio works out to be 27.3x. The current valuation of 27.3x is cheaper than its peer group. The company has significant scope for growth, considering its diverse product profile and extensive client base and expanding in to high growth and largest saree market Chennai and rest of Tamil Nadu, besides scope for improvement in operating margins, resulting in healthy earnings and returns ratios. **As a result, we recommend that SSKL IPO be rated 'Subscribe'.**

Peer Benchmarking:

Name of the company	Face Value (INR per share)	Market Cap (INR Mn)	Revenues for FY23 (INR in Mn)	EBITDA margin (%)	ROE (%)	Basic EPS for FY23 (INR)	P/E for FY23 (x)
Sai Silks Kalamandir Ltd.	2	34,040	13510	15.76%	27.96%	8.11	27.3
Peer Group							
Vedant Fashions Ltd.	1	3,19,270	13,549	49.51%	30.65%	17.68	71.29
TCNS Clothing Ltd.	2	23,930	12016	10.45%	NA	(2.75)	NA

Source: IPO Prospectus

Note:*Considering the upper price band

Sai Silks (Kalamandir) Ltd.

Financials:

Income Statement (INR Mn)	FY21	FY22	FY23
Total Revenue from Operations	6,772	11,293	13,515
YoY Growth (%)		67%	20%
EBITDA	624	1,330	2,125
EBITDA Margin (%)	9.2%	11.8%	15.7%
Other Income	18.47	36.93	74.51
Depreciation	294.57	308.16	410.07
EBIT	348	1,059	1,790
Interest expense	274.43	286.39	454.06
PBT	73	773	1,336
Tax	21.76	195.99	359.81
PAT	51	577	976
EPS (INR)	0.43	4.79	8.11

Source: IPO Prospectus, DRChoksey Research; EBITDA Margins excluding Other Income

Balance Sheet (INR Mn)	FY21	FY22	FY23
Equity Share Capital	241	241	241
Other Equity	2,189	2,766	3,733
Total Shareholders' Funds	2,430	3,007	3,973
Non-controlling interest	0	0	0
Total Equity	2,430	3,007	3,973
Borrowings	2,172	2,605	3,455
Lease Liabilities	620.62	866.39	1804.17
Deferred Tax Liabilities	145.37	127.71	114.85
Provisions	31.88	27.71	51.76
Trade Payables	1,075.99	1,291.18	2,300.22
Other Financial Liabilities	131.1	264.22	345.06
Other current Liabilities	30	24	38
Current Tax Liabilities	17.56	211.9	122.04
Total Equity & Liabilities	6,654	8,425	12,205
Assets			
Cash and Cash Equivalents	43.34	86.24	46.15
Bank Balance	185.6	383.99	450.89
Inventories	3,669.68	4,764.32	6,897.49
Trade Receivables	23	19	29
Current Tax Assets	0	0	0
Other current assets	116.02	188.79	271
Other Financial Assets	56	165	353
Total Current Assets	4,093	5,608	8,047
Income Tax Assets (net)	0	0	0
Property, Plant and Equipment	1,587.25	1,631.71	2,047.05
Right of Use Assets	566.79	784.05	1692.93
Capital work-in-progress	21.19	0	0
Deferred Tax Assets	0	0	0
Other Intangible Assets	97.59	76.1	54.65
Other Non-Financial Assets	234	238	276
Other Non Current Assets	54	87	86
Total Non-Financial Assets	2,561	2,817	4,157
Total Assets	6,654	8,425	12,205

Source: IPO Prospectus, DRChoksey Research

Sai Silks (Kalamandir) Ltd.

ANALYST CERTIFICATION:

I, **Avinash Nile**, CMT, M.B.A. Finance; B.E. Mechanical, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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