

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

SAI SILKS LIMITED

September 20, 2023



SSKL
SAI SILKS (KALAMANDIR) LIMITED

SAI SILKS (KALAMANDIR) LIMITED



September 20, 2023

Details of the Issue

Price Band	₹ 210 - ₹ 222
Issue Size	₹ 1,201 Cr
Face Value	₹ 2
Bid Lot	67
Listing on	BSE, NSE
Post Issue Mcap	₹ 3,404.73 Cr
Investment Range	₹ 14,070 - ₹ 14,874

Important Indicative Dates (2023)

Opening	20 - Sep
Closing	22 - Sep
Basis of Allotment	27 - Sep
Refund Initiation	29 - Sep
Credit to Demat	03 - Oct
Listing Date	04 - Oct

Lead Manager

Motilal Oswal Investment Advisors Limited
HDFC Bank Limited
Nuvama Wealth Management Limited

No of shares (Mn)

Fresh Issue of Shares	27.02
Offer for Sales	27.07
Total No of Shares	54.09

Offer Details

Offer Size	₹ 601 Cr
Fresh Issue	₹ 600 Cr
OFS	₹ 1,201 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	600.5	27.49	28.59	50
NIB	180.15	8.11	8.57	15
Retail	420.35	18.93	20.01	35
Em-ploy.	-	-	-	-
Total	1,201	54.09	57.19	100

Invest NowCompany Profile

Company is a top 10 retailer in South India for ethnic apparel, including sarees, with strong revenues and profits in Fiscal 2020, 2021, and 2022. It has four store formats, Kalamandir, VaraMahalakshmi Silks, Mandir, and KLM Fashion Mall, cater to diverse market segments, offering premium, middle-income, and value-fashion ethnic products. With 54 stores as of July 31, 2023, It showcase India's culture and traditions through a range of products, including premium sarees for various occasions, lehengas, men's and children's ethnic wear, as well as fusion and western wear.

In the evolving apparel market, organized retailing has grown from 14% in Fiscal 2007 to 32% in Fiscal 2020. It recognized an opportunity in the saree market historically dominated by small, unorganized players. Starting in 2005, it have become a leading player, offering a wide variety of sarees and ethnic wear across different price ranges.

Business Highlights & Services

Company rank in South India's top 10 ethnic apparel retailers by revenue and post-tax profits for Fiscal 2020, 2021, and 2022, according to the Technopak Report. Through four store formats - Kalamandir, VaraMahalakshmi Silks, Mandir, and KLM Fashion Mall - It serve a broad market spectrum, offering premium, middle-income, and value ethnic fashion. With 54 stores as of July 31, 2023, it showcase India's rich culture and heritage through a diverse product range, including premium sarees for various occasions, lehengas, men's and children's ethnic wear, as well as fusion and western wear for all.

Organized retail's share in the apparel market has grown significantly from 14% in Fiscal 2007 to 32% in Fiscal 2020. This phase in the market's evolution is marked by clear segmentation in organized apparel retail channels, with category leaders emerging in western (formal and casual), Indian, and athleisure categories.

Historically, the saree segment was dominated by unorganized, small-format stores, with only a few organized players. Recognizing the opportunity, company's founders launched operations in 2005 to fill this market gap. Today, it boast one of the most extensive portfolios of saree SKUs among women's apparel brands in India. Its large retail outlets offer customers a diverse range of ethnic wear options at various price points.

A timeline illustrating the significant milestones achieved by company since the launch of the business is set out below :

<p><i>Started as a partnership in the name of 'Sai Silks'. First Kalamandir store was launched in Ameerpet (Hyderabad)</i></p>  <p>2005</p>	<p><i>Kalamandir expands to Karnataka and the rest of Andhra Pradesh</i></p>  <p>2008</p>	<p><i>The first premium brand of the Company. "Mandir" opens its first store in Hyderabad</i></p>  <p>2011</p>	<p><i>'VaraMahalakshmi', a premium retail store launched in Kancheepuram in Tamil Nadu</i></p>  <p>2012</p>	<p><i>First KLM Fashion Mall was launched in Ameerpet. The store has a high fashion quotient with a wide range of styles at affordable prices</i></p>  <p>2017</p>	<p><i>Started online retail for each of our brands with innovative solutions such as video appointments etc.</i></p>  <p>2020</p>
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Company initiated operations in 2005 with first 'Kalamandir' store in Hyderabad, Telangana, spanning 3,213 square feet. Over the years, It has expanded to 54 stores across four South Indian states: Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu. As of July 31, 2023, It total retail space encompasses approximately 603,414 square feet.

Company's average store sizes, based on operating stores as of July 31, 2023, are as follows: 10,390 square feet for Kalamandir format stores, 3,310 square feet for Mandir format stores, 6,099 square feet for VaraMahalakshmi format stores, and 18,400 square feet for KLM Fashion Mall format stores. It take pride in offering a unique shopping experience, excellent customer service, and a diverse inventory with a wide range of SKUs.







These factors have contributed to their ability to attract and retain a growing customer base, which surpassed 5.98 million customers in India as of July 31, 2023."

Company's Performance Indicators:

Particulars	Fiscal 2021	Fiscal 2022	Fiscal 2023
New stores opened during the Fiscal	-	4	8
Stores closed during the Fiscal	1 ⁽⁵⁾	-	-
Stores ⁽¹⁾	42	46	54
Stores converted / Format changed during the Fiscal ⁽²⁾	1	2	-
Cities	11	12	12
Average Store Area (square feet)	12,171	11,974	11,174
Metrics per Square Feet (₹)			
- Average revenue from operations per square feet (for all stores)	13,247	20,502	22,397
- Average revenue from operations per square feet (for Mature Stores ⁽³⁾)	13,058	20,210	22,850
Revenue Metrics per Store (₹ million)			
- Average revenue from operations (for all stores)	161.23	245.50	250.27
- Average revenue from operations (for Mature Stores ⁽³⁾)	161.85	252.64	273.61
Average Capital Expenditure per Store (₹ million) ⁽⁴⁾	50.43	51.43	51.72

Store Format and Presence

Company's ethnic wear and value-fashion products are available through stores under four different format stores, i.e., Kalamandir, VaraMahalakshmi Silks, Mandir, and KLM Fashion Mall, as well as through e-commerce channels comprising own website and other online e-commerce marketplaces. The table below provides certain information on product portfolio and break-down by price range as of July 31, 2023:

Format	Target Segment	Product Portfolio	Average Price Range
	Contemporary ethnic fashion for middle income	Different variety of sarees, such as <i>Tusser, Silk, Kota, Kora, Khadi, Georgette, Cotton and Matka</i>	Approximately ₹ 1,000 to ₹ 100,000
	Premium ethnic silk sarees and handlooms targeting wedding and occasional wear.	The major product offerings includes premium variety of sarees such as <i>Banarasi, Patola, Kota, Kanchipuram, Paithani, and Organza, Kuppadam</i> , with major focus on handlooms such as <i>Kacheepuram</i> silk sarees	Approximately ₹ 4,000 to ₹ 250,000
	Ultra-premium designer sarees targeting high net-worth individuals	The major product offerings includes ultra-premium variety of designer sarees such as <i>Banarasi, Patola, Ikat, Kanchipuram, Paithani, Organza and Kuppadam</i>	Approximately ₹ 6,000 to ₹ 350,000.
	Value-fashion at affordable price points	Value fashion products comprising fusion wear, sarees for daily wear and western wear for women, men and children	Approximately ₹ 200 to ₹ 75,000

Kalamandir Store Format: Kalamandir format stores cater to middle-class and upper-middle-class customers with a wide range of sarees, including Tusser, Silk, Kota, Kora, Khadi, Georgette, Cotton, and Matka. It currently operate 12 Kalamandir stores across Andhra Pradesh, Telangana, and Karnataka, covering approximately 124,677 square feet. Kalamandir sarees are meticulously crafted by skilled weavers and artisans to meet high-quality standards. These stores feature contemporary designs with vibrant displays, attracting shoppers. It's products are priced between ₹1,000 and ₹100,000, catering to budget-conscious customers. In Fiscal 2021, 2022, and 2023, the average sales invoice value for Kalamandir (excluding e-commerce) was ₹4,450, ₹4,843, and ₹5,017, respectively.

VaraMahalakshmi Store Format: VaraMahalakshmi, established in 2011, specializes in Kanchipuram silk sarees. With 19 stores across four South Indian states, including Bengaluru, Hyderabad, Chennai, Vijaywada, and Nellore, covering a total area of ₹115,889 square feet as of July 31, 2023, it offer a unique blend of traditional and contemporary Kanchipuram sarees. Its product range includes Banarasi, Patola, Kota, Kanchipuram, Paithani, Organza, and Kuppadam sarees, catering to various price points (₹4,000 to ₹250,000). VaraMahalakshmi's average invoice value for sales (excluding e-commerce) was ₹12,380 in Fiscal 2021, ₹12,581 in Fiscal 2022, and ₹12,351 in Fiscal 2023.



Mandir Store Format: Mandir, established in 2011, focuses on ultra-premium designer sarees and lehengas. It offer a range of high-end sarees, including Banarasi, Patola, Ikat, Kanchipuram, Paithani, Organza, and Kuppadam, which can be customized for customers. It currently operate four small-format Mandir stores in Hyderabad, covering a total area of approximately 13,240 square feet as of July 31, 2023. It strategically located Hyderabad stores cater to the purchasing power of target demographic. For example, Banjara Hills outlet generates larger transactions due to its prime location. Mandir products are intricately designed and crafted by master weavers, with prices ranging from ₹6,000 to ₹350,000. The average sales invoice value for Mandir (excluding e-commerce) in Fiscals 2021, 2022, and 2023 was ₹23,229, ₹24,853, and ₹24,024, respectively.

KLM Fashion Mall: KLM Fashion Mall, introduced in 2017, focuses on affordable, new-age fashion choices for youth and the masses. With 19 large-format stores across three states, covering a total area of 3,49,608 square feet as of July 31, 2023, its products cater to value-conscious customers. The average store size is approximately 18,400 square feet. KLM Fashion Mall offers a variety of products in men’s wear, women’s wear, and kid’s wear segments. Company’s affordable pricing makes it a go-to choice for daily fashion. The average sales invoice value for KLM Fashion Mall (excluding e-commerce) in Fiscal 2021, 2022, and 2023 was ₹2,474, ₹2,440, and ₹2,568, respectively.

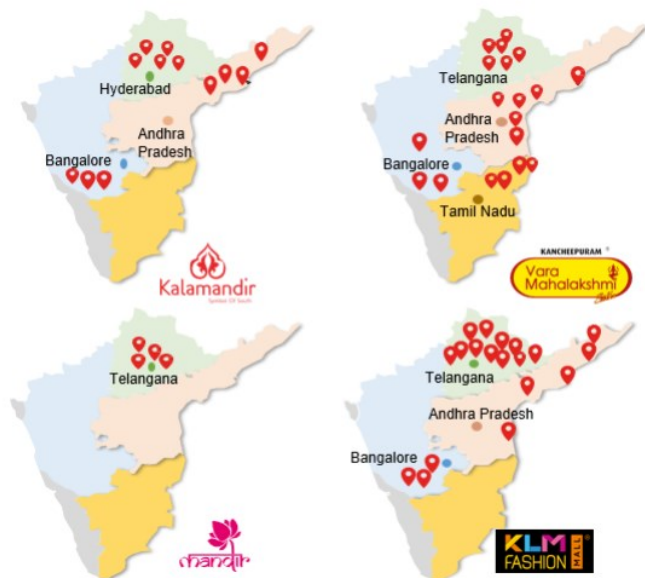
The following table sets out product portfolio under KLM Fashion Mall:

Product Type	Product Portfolio	Average Price Range (₹)
Women’s Ethnic Wear	Sarees, SKD, Dress Material	200 to 75,000
Women’s Western Wear	Kurta, Kurti, Tops, Leggins	300 to 3,000
Men’s Ethnic Wear	Dhotis, Sherwani, Kurtas	500 to 15,000
Men’s Western Wear	T-Shirts, Shirts, Pants, Jeans, Jackets	200 to 12,000
Kids’ Wear	Wide variety of kids’ clothing	200 to 10,000

Product Revenue Split

Category	Fiscal 2021		Fiscal 2022		Fiscal 2023	
	Amount (₹ million)	% of Total Revenue from Operations	Amount (₹ million)	% of Total Revenue from Operations	Amount (₹ million)	% of Total Revenue From Operations
Sarees	4,448.98	65.70%	7,607.06	67.36%	9,241.59	68.38%
Others	2,322.49	34.30%	3,686.17	32.64%	4,273.10	31.62%
Total Revenue	6,771.47	100.00%	11,293.23	100.00%	13,514.69	100.00%

Geographical Footprint



Category	Fiscals					
	2021		2022		2023	
	Amount (₹ million)	Percentage of total revenue from operations (%)	Amount (₹ million)	Percentage of total revenue from operations (%)	Amount (₹ million)	Percentage of total revenue from operations (%)
Physical	6,716.55	99.19%	11,121.68	98.48%	13,329.96	98.63%
E-commerce	54.92	0.81%	171.55	1.52%	184.73	1.37%
Total	6,771.47	100.00%	11,293.23	100.00%	13,514.69	100.00%

States	Number of Stores (As of July 31, 2023)	Aggregate Store Area (square feet) (As of July 31, 2023)	Revenue from Operations (₹ million)		
			Fiscal		
			2021	2022	2023
Telangana	25	2,75,503	2,845.31	5,115.90	6,064.35
Andhra Pradesh	16	1,93,557	2,611.15	4,153.44	4,429.38
Tamil Nadu	4	26,770	444.84	765.80	1,218.70
Karnataka	9	1,07,584	870.16	1,258.09	1,802.26
Total	54	6,03,414	6,771.47	11,293.23	13,514.69



Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Funding capital expenditure towards setting-up of 30 new stores of ₹ 125.08 Cr.
- Funding capital expenditure towards setting-up of two warehouses of ₹ 25.39 Cr.
- Funding working capital requirements of ₹ 280.06 Cr.
- Repayment or pre-payment, in full or part, of certain borrowings availed by company of ₹ 50 Cr.
- General corporate purposes.

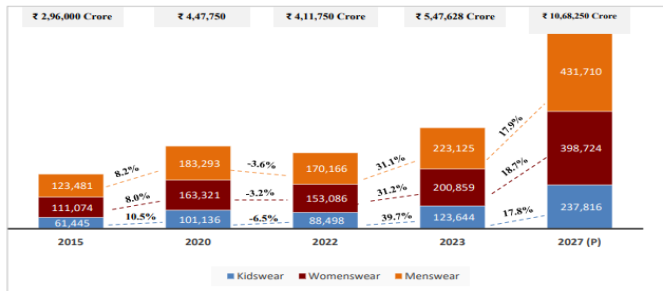
Industry Outlook

Organized retailing share of Apparel has increased from 14% in Fiscal 2007 to 39% in Fiscal 2022. In other words, in the last thirteen years, organized retail not only captured the new incremental demand, but it has also succeeded to shift the demand away from unorganized apparel retail in its favour. Given the fact that organized retail sells branded apparel, the growth of organized retail is poised to be a key growth enabler for the growth of branded apparel. Apart from the demographic and urbanization (that were the reasons for the growth of branded apparel) that aided the growth of organized retail, the rapid evolution of organized retailing models for apparel is a key reason that has also enabled this growth. The share of organized is expected to increase further to 49% by Fiscal 2027 and that will continue to support of branded apparel as well.

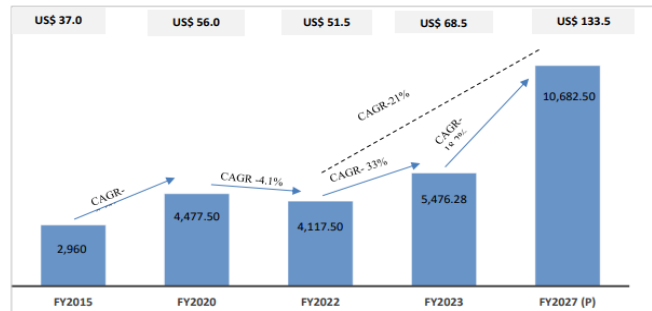
Organized Apparel Retail's Evolution in India



Growth Projections of Apparel Market by Gender



Apparel Market Size in India (in ₹ Crore) (Year In Fiscal)



Peer Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
Sai Silks (Kalamandir) Ltd	5	5,634	17.07	125.19	NA	13.66%
Peers Group						
Vedanta Fashions Ltd	1	17,088	17.11	105.75	79.49	16.18%
TCNS Clothings co. Ltd	10	14,241	84.61	445.25	62.57	19.23%
Go Fashions Ltd	2	6,940	52.86	287.07	49.72	18.44%
Aditya Brila Fashions and Retails Ltd	2	4,599	32.97	285.76	34.52	11.54%



Comparative Ratio:

(All in ₹ Million except ratios and percentages)

Name of the company	Gross Margin	Current Ratio	Quick Ratio	Inventory Turnover Ratio	Same Store Sales Growth	Cost to Retail Ratio	Inventory to total Assets	Net Sales to Inventory
Sai Silks (Kalamandir) Limited	39.13%	1.41	0.20	2.32	24.55%	60.87%	0.57	1.96
Peer Group[#]								
Vedant Fashions Limited ⁽¹⁾	74.03%	3.37	2.93	8.56	18.10%	25.97%	0.08	7.80
TCNS Clothing Co. Limited ⁽¹⁾	66.68%	1.96	0.80	2.81	NA	33.32%	0.33	2.43
Go Fashion (India) Limited ⁽¹⁾	66.70%	3.57	1.75	3.36	36.00%	33.30%	0.25	2.89
Aditya Birla Fashion and Retail Limited ⁽¹⁾	55.29%	1.01	0.42	3.48	NA	44.71%	0.25	2.95
Shoppers Stop Limited ⁽¹⁾	42.11%	0.80	0.18	3.21	NA	57.89%	0.33	2.68
Trent Limited ⁽¹⁾	42.74%	2.17	0.93	7.40	NA	57.26%	0.17	6.06

Companies Competitive Strength :

- Among the leading ethnic and value-fashion retail company in south India having a portfolio of established formats with focused sales and marketing strategy .
- Leading ethnic wear retail brand in India with a scalable model, well positioned to leverage growth in the ethnic and value-fashion apparel industry in India.
- Strong presence in offline and online marketplace with an omni-channel network.
- Track record of growth, profitability and unit economics with an efficient operating model.
- Experienced Promoter, management and in-house teams with proven execution capabilities.

Key Strategies Implemented by Company

- Expand footprint within India through owned stores and franchise network by leveraging brand appeal.
- Increase focus on sale of products through e-commerce.
- Leverage technology to bring cost efficiency and enhance customer experience.

Particulars (Rs Cr)	2023	2022	2021
Equity Share Capital	24.06	24.06	24.06
Reserves	373.2	276.5	218.9
Net worth as stated	397.3	300.6	242.9
Revenue from Operation	1358.9	1133.0	679.0
Revenue Growth (%)	20%	67%	-
EBITDA as Stated	219.9	136.7	64.2
EBITDA margin (%)	16.2%	12.1%	9.5%
Profit Before Tax	133.5	77.2	7.3
Net Profit for the period	97.58	57.68	5.13
Net Profit (%) as Stated	7.2%	5.1%	0.8%
EPS (₹)	8.11	4.79	0.43
RoNW (%)	24.6%	19.2%	2.1%

Valuations and Recommendation:

- Sai Silk Ltd annualized earning arrives at ₹ 97.59 Cr for FY23. At upper price band of ₹ 222, Company is looking for post issue market cap of ₹ 3,404.73 Cr, Which implies a earning multiple (P/E) of 34.88(x).
- Based on the valuation, issue appears to be inline with its listed peers, the Indian ethnic wear business is challenging due to its complex inventory management and high customer demands. Ethnic wear is now popular not only at weddings but also during nationwide festivals and celebrations. Company manage production both in-house and through third parties, employing a system-driven and algorithmic approach throughout their supply chain and inventory management. To strengthen their brand, it plan to expand its digital marketing, utilize brand ambassadors, and engage in outdoor advertising. This strategy provides SSKL with a competitive edge in women's ethnic wear, ensuring strong margins and returns. With consistent growth expected from store expansion in the coming years. Hence, We recommend an "Subscribe" rating to this stock issue.



Notes

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