

Retail Research	IPO Note
Sector: Retail (Ethnic Apparel)	Price Band (Rs): 210 - 222
20th September 2023	Recommendation: Subscribe for long term Horizon

Sai Silk (Kalamandir) Limited

Company Overview:

Sai Silk (Kalamandir) Limited is amongst the top ten retailers of ethnic apparel, particularly sarees, in south India in terms of revenues and net profit in FY20, FY21 and FY22. The company operates four store formats, i.e., Kalamandir, VaraMahalakshmi Silks, Mandir and KLM Fashion Mall. The company offers products to various market segments, including premium ethnic fashion, ethnic fashion for middle income and value fashion, with a variety of products across different price points, thereby catering to customers across all market segments. The company operates 54 store networks to offer a diverse range of products which includes ultra-premium and premium sarees suitable for weddings, and party wear, as well as occasional and daily wear; lehengas, men's ethnic wear, children's ethnic wear and value fashion products comprising fusion wear and western wear for women, men and children.

Key Highlights:

Store Network: As of July'23, the company operates 54 stores in four major south Indian states, i.e., Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu with an aggregate area of approximately 6,03,414 square feet. The average store size, calculated on the basis of the operating stores as of July'23, is 10,390 square feet for the Kalamandir format stores, 3,310 square feet for the Mandir format stores, 6,099 square feet for the VaraMahalakshmi format stores, 18,400 square feet for the KLM Fashion Mall format stores. Sales from the physical stores in FY21, FY22 and FY23 amounted to Rs 671 cr, Rs 1,112 cr, and Rs 1,332 cr, respectively representing 99.19%, 98.48%, and 98.63% of the total revenue from operations.

Inventory Management: The company manages the inventory and logistics as well as the entire supply chain for all the channels from four of the warehouses in Karnataka, Andhra Pradesh, Telangana and Tamil Nadu with an aggregate area of approximately 1,64,000 square feet. The company also has a designated storage space located at one of the stores in Chennai, Tamil Nadu. The products have been sourced from an aggregate of 4,832 master weavers, weavers and vendors from across India.

Marketing Activities: The company has a focused marketing strategy and currently has engaged popular south Indian actors as the brand ambassadors. The company focuses on quality products, a variety of products. Customer-oriented policies together with celebrity endorsements has enabled it to develop strong brand recognition and customer loyalty. The sales and marketing strategies aim to increase brand awareness and brand recall, acquiring new customers, and strengthen and reinforcement of brand image. In FY21, FY22, and FY23, the advertisement expenses were Rs 9 cr, Rs 26 cr, and Rs 34 cr, which accounted for 1.29%, 2.39%, and 2.56%, respectively, of the revenue from operations.

Valuation: The company is valued at a FY23 PE multiple of 34.9x, and EV/EBITDA of 14.6x, at the upper price band on post-issue capital. The IPO looks attractively valued across various valuation parameters when compared with its peers. With decent return ratios and margins, the risk reward ratio for long term investors looks favourable. The investors can subscribe to the IPO for a long-term investment perspective.

Issue Details	
Date of Opening	20 th September 23
Date of Closing	22 nd September 23
Price Band (Rs)	210 – 222
Issue Size (Rs cr)	1,168 – 1,200
No. of shares	5,56,43,429 – 5,40,99,027
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	3,253 – 3,404
BRLMs	Motilal Oswal Investment, HDFC Bank, Nuvama Wealth
Registrar	Bigshare Services Private Limited
Bid Lot	67 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%

Objects of Issue	
	(Rs Cr.)
Gross proceeds from fresh issue*	600.0
(less) Offer related expenses in relation to the Fresh Issue**	-
Net Proceeds	-

* Subject to full subscription of the Fresh Issue component

** To be finalised upon determination of the Offer Price and will be updated in the Prospectus prior to filing with the RoC.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	12,03,22,940	95.2
Public & Others	60,16,145	4.8
Total	12,63,39,085	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	9,32,50,940	60.2
Public & Others	6,16,59,574	39.8
Total	15,49,10,514	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	9,32,50,940	60.8
Public & Others	6,01,15,172	39.2
Total	15,33,66,112	100.0

Source: RHP, SSL Research

Risk factors

- The company's business is highly concentrated on the sale of women's sarees and is vulnerable to variations in demand and changes in consumer preference, which could have an adverse effect on the business, results of operations and financial condition.
- Current locations of the stores may become unattractive, and suitable new locations may not be available at a reasonable price or acceptable terms. In addition, the company is exposed to risks associated with leasing real estate.
- The nature of the business requires the company to maintain sufficient inventories resulting into high inventory costs. If the company is unable to maintain an optimal level of inventory, the business, results of operations and financial condition may be adversely affected.
- Quality and consistency in customer service at the stores are critical for the success, which depends on the ability to attract and retain skilled personnel. Any failure in this respect could materially and adversely impact the reputation, business, financial condition, cash flows and results of operations.

Growth strategy

- Expanding footprint within India through owned stores and franchise networks by leveraging brand appeal.
- Leveraging technology to bring cost efficiency and enhance customer experience.
- Increasing focus the on sale of products through e-commerce.

Performance Indicator

Particulars	FY21	FY22	FY23
New stores opened during the FY	-	4	8
Stores closed during the FY	1 ⁽⁵⁾	-	-
Stores ⁽¹⁾	42	46	54
Stores converted / Format changed during the FY ⁽²⁾	1	2	-
Cities	11	12	12
Average Store Area (square feet)	12,171	11,974	11,174
Metrics per Square Feet (Rs)			
- 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 (Rs cr)			
- Average revenue from operations (for all stores)	16.1	24.6	25.0
- Average revenue from operations (for Mature Stores ⁽³⁾)	16.2	25.3	27.4
Average Capital Expenditure per Store (Rs cr) ⁽⁴⁾	5.0	5.1	5.2

Source: RHP, SSL Research

(1) Stores refer to the number of stores at the end of the relevant FY/ period.

(2) In FY21, the company closed one of the Kalamandir store located in KMR-Guntur, Andhra Pradesh. Subsequently the company opened a new store in Guntur, Andhra Pradesh under the VaraMahalakshmi format. In addition, one Kalamandir store in Hyderabad was converted into Varamahalakshmi store. Further, in FY22, one of the Kalamandir stores located in Hyderabad, Telangana was converted into a Mandir store and one of the KLM Fashion Mall stores were converted into VaraMahalakshmi format.

(3) Mature Stores refer to Stores that have been operating for a period of more than 12 months. In FY21, FY22 and FY23, we had 41, 40, and 46 Mature Stores, respectively.

(4) Average Capital Expenditure per Store refers to cost of interiors, furniture and equipment for stores as at the end of the relevant FY.

(5) One Kalamandir store, at KMR-Guntur, Andhra Pradesh closed in FY21.

Particulars	FY21		FY22		FY23	
	Revenue (Rs cr)	% of Total Revenue from Operations	Revenue (Rs cr)	% of Total Revenue from Operations	Revenue (Rs cr)	% of Total Revenue from Operations
Telangana	284.5	42.0%	511.6	45.3%	606.4	44.9%
Andhra Pradesh	261.1	38.6%	415.3	36.8%	442.9	32.8%
Tamil Nadu	44.5	6.6%	76.6	6.8%	121.9	9.0%
Karnataka	87.0	12.9%	125.8	11.1%	180.2	13.3%
Total	677.1	100.0%	1,129.3	100.0%	1,351.5	100.0%

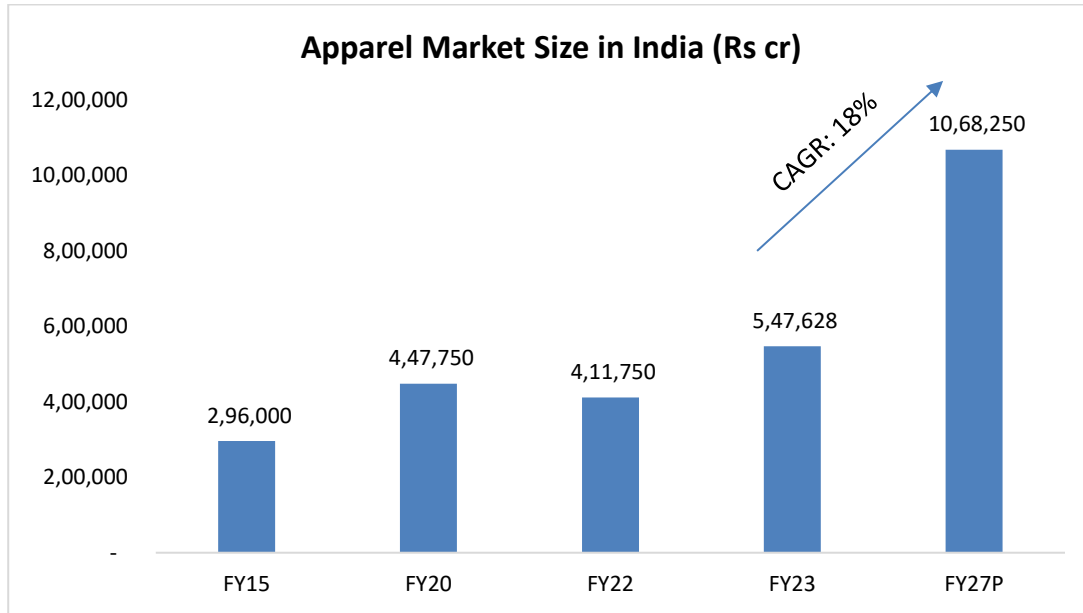
Source: RHP, SSL Research

Category	FY21		FY22		FY23	
	Revenue (Rs cr)	% of Total Revenue from Operations	Revenue (Rs cr)	% of Total Revenue from Operations	Revenue (Rs cr)	% of Total Revenue From Operations
Sarees	444.9	65.7%	760.7	67.4%	924.2	68.4%
Others	232.2	34.3%	368.6	32.6%	427.3	31.6%
Total Revenue	677.1	100.0%	1,129.3	100.0%	1,351.5	100.0%

Source: RHP, SSL Research

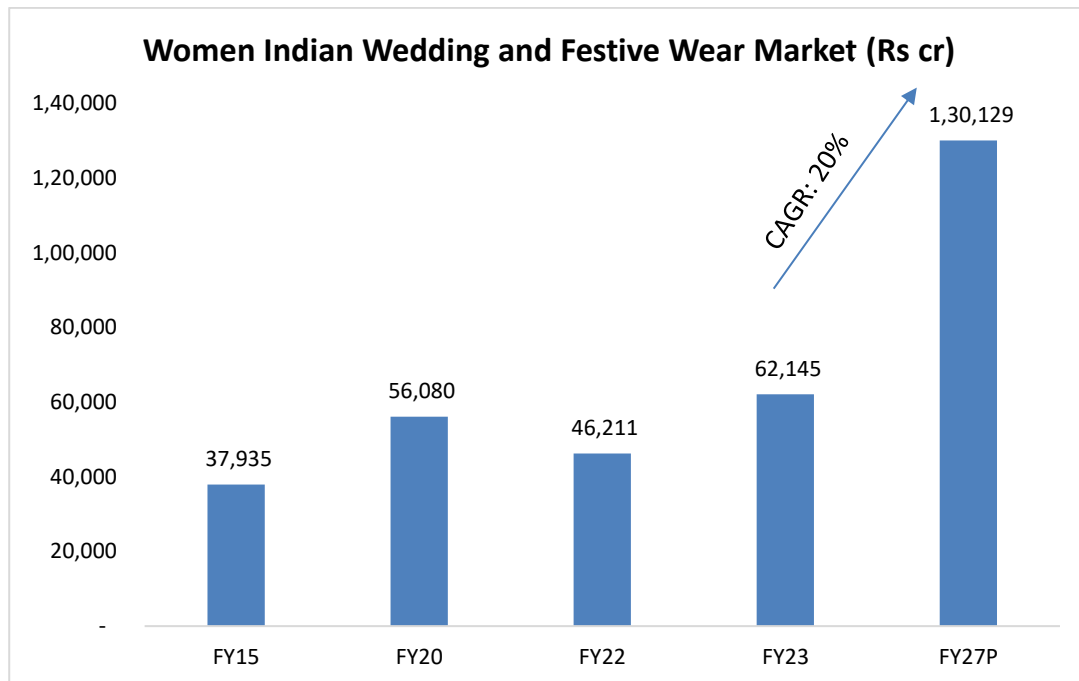
Industry Overview

Apparel Market Size in India

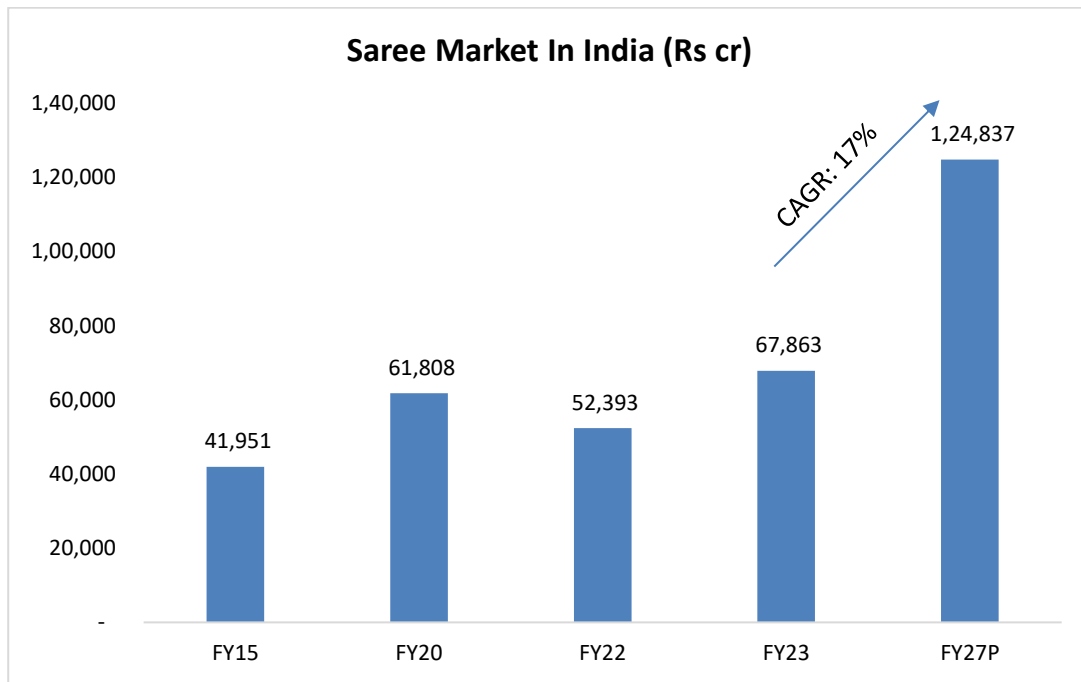


Source: RHP, SSL Research

Women's Indian Wedding and Festive Market Size



Source: RHP, SSL Research

Saree Market in India

Source: RHP, SSL Research

Financial Snapshot

Sai Silk (Kalamandir) Limited			
(Rs. Cr.)	Pre-Issue	Post Issue	
	FY22	FY23	
Particulars		Price Band	
	210.0	210.0	222.0
Net Sales	1,129.3	1,351.5	1,351.5
Total Income	1,133.0	1,358.9	1,358.9
EBIDTA	133.0	212.5	212.5
PAT	57.7	97.6	97.6
Equity Share Capital	24.1	31.0	30.7
No of Equity Shares	12.0	15.5	15.3
Face Value	2.0	2.0	2.0
EPS	4.8	6.3	6.4
CMP	210.0	210.0	222.0
Cash and Bank	47.0	649.7	649.7
Debt	260.5	345.5	345.5
Market Cap	2,526.8	3,253.1	3,404.7
BV per share (Rs)	25.0	64.4	65.0
PE(x)	43.8	33.3	34.9
P/BV (x)	8.4	3.3	3.4
Enterprise Value	2,740.3	2,948.9	3,100.5
Mcap/Sales (x)	2.2	2.4	2.5
EV/Sales (x)	2.4	2.2	2.3
EV/EBIDTA (x)	20.6	13.9	14.6
EBITDA Margins (%)	11.8	15.7	15.7
Net Margins (%)	5.1	7.2	7.2
ROE (%)	21.2	15.0	15.0
ROCE (%)	20.7	18.8	18.8
Debt/Equity	0.9	0.3	0.3
Net worth	300.7	997.3	997.3

Source: RHP, SSL Research (Post Issue)

Year	FY21	FY22	FY23
Net Sales	677.2	1,129.3	1,351.5
EBITDA	62.4	133.0	212.5
Net Profit	5.1	57.7	97.6
EBITDA Margin (%)	9.2	11.8	15.7
Net Profit Margin (%)	0.8	5.1	7.2

Source: RHP, SSL Research

	FY21	FY22	FY23
Debtor's days	1	1	1
Inventory days	300	236	306
Creditor's days	88	64	102
Working Capital Days	213	172	205

Source: RHP, SSL Research

	FY21	FY22	FY23
Cash flow from Operating Activities	-15.2	45.6	41.2
Cash flow from Investing Activities	-18.0	-42.0	-60.1
Cash flow from Financing Activities	19.4	0.7	14.9
Free Cash Flow	-20.7	20.3	-18.9

Source: RHP, SSL Research

Peer Comparison

	Sai Silk (Kalamandir) Ltd.	Vedanta Fashions Ltd.	TCNS Clothing Co. Ltd.	GO Fashion (India) Ltd.	Aditya Birla Fashion and Retail Ltd.	Shoppers Stop Ltd.	Trent Ltd.
EV (Rs cr)	3,100.5	32,460.0	2,895.0	7,428.0	27,035.0	10,095.0	77,493.0
EV/EBITDA	14.6	48.4	23.0	35.0	17.4	14.5	69.6
Average Store Area (square feet)*	11,174.0	2,265.0	-	429.0	3,045.7	14,444.4	10,508.5
Average revenue from operations per square feet (for all stores)**	22,397.0	9,217.2	-	18,186.0	11,498.1	10,313.2	13,293.6
Average revenue from operations (for all stores) (Rs cr)***	25.0	2.1	1.8	1.1	3.5	14.9	14.0
CMP	222.0	1,322.0	375.0	1,327.0	223.0	705.0	2,056.0
Sales (Rs cr)	1,351.5	1,355.0	1,202.0	665.0	12,418.0	4,022.0	8,242.0
EBITDA (Rs cr)	212.5	671.0	126.0	212.0	1,557.0	695.0	1,114.0
Net Profit (Rs cr)	97.6	429.0	-18.0	83.0	-59.0	116.0	394.0
M.Cap (Rs Cr)	3,404.7	32,177.0	2,371.0	7,175.0	21,163.0	7,752.0	73,115.0
EBITDA Margin (%)	15.7	49.5	10.5	31.9	12.5	17.3	13.5
PE(x)	34.9	73.8	-	84.8	-	71.0	163.0
RoE (%)	15.0	34.0	-	17.3	-2.2	80.7	11.9
RoCE (%)	18.8	39.2	1.7	17.7	5.0	15.3	11.5

(Source: RHP, SSL Research)

*Average Store area is the total square foot of all the stores divided by the number of stores as at the end of the relevant fiscal.

**Average Revenue from operations per square foot is the total revenue from operations divided by the square foot for all stores as at the end of the relevant fiscal.

***Average Revenue from operations for all stores is the total revenue from operations divided by number of stores at the end of the relevant fiscal.

The data is based on FY23 financial data, For Sai Silk (Kalamandir) Limited the data is calculated on post-issue equity share capital.

CMP as on 20th September'23.

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602
 Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103
 Registered & Corporate Office: Marathon Futurex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555

E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in

DISCLOSURES & DISCLAIMERS:

Analyst Certification: The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

- (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

(a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peshwani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

For other Disclosures please visit: https://bit.ly/R_disclaimer02