



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Retail
Offer for sale (Shares)	27,072,000
Fresh Issue (Shares)	27,027,027
Net Offer to the Public	54,099,027
Issue Size (Rs. Cr.)	1136-1201
Price Band (Rs.)	210-222
Offer Date	20-Sep-23
Close Date	22-Sep-23
Face Value	2
Lot Size	67 Shares

Issue Composition

	In shares
Total Issue for Sale	54,099,027
QIB	27,049,514
NIB	8,114,854
Retail	18,934,659

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	95.24%	60.80%
QIB	0.00%	17.64%
NIB	0.00%	5.29%
Retail	4.76%	16.27%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company intends to utilize the net proceeds from the issue towards the funding of the following objects:
Funding capital expenditure towards setting up 25 new stores.
Funding capital expenditure towards setting-up of two warehouses.
Funding the working capital requirements of the company.
Repayment or pre-payment, in full or part, of certain borrowings availed by the company.
General corporate purposes.

Book Running Lead Manager

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

Name of the registrar

- Bigshare Services Private Limited

About the company

Incorporated in 2005, Sai Silks (Kalamandir) Limited provides ethnic apparel and value-fashion products. It operates through four different format stores, namely Kalamandir, Mandir, Varamahalakshmi Silks, and KLM Fashion Mall, as well as through e-commerce channels that include its own websites and other online e-commerce marketplaces. With a network of 54 stores in Andhra Pradesh, Telangana, Karnataka, and Tamil Nadu as of July 2023, the company offers a diverse range of products including ultra-premium and premium sarees, lehengas, and men and children's ethnic wear.

The company recorded Rs. 1351.50 Crore, Rs. 1129.32 Crore, and Rs. 677.25 Crore in revenue from operations in the fiscal 2023, 2022, and 2021 respectively. Its Gross Margins were Rs. 230.40 Crore, Rs. 391.45 Crore and Rs. 528.85 Crore, or 34.02%, 34.66% and 39.13% in Fiscal 2021, 2022 and 2023, respectively. Its EBITDA for Fiscal 2021, 2022 and 2023 was Rs. 62.36 Crore, Rs. 133.05 Crore and Rs 212.53 Crore, respectively while its EBITDA Margin were 9.21%, 11.78% and 15.73%, respectively. Its restated profit after tax was Rs 5.13 Crore, Rs. 57.69 Crore and Rs. 97.60 Crore in Fiscal 2021, 2022 and 2023, respectively. Its restated profit after tax margin was 0.76%, 5.11% and 7.22% in Fiscal 2021, 2022 and 2023, respectively.

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: The share of organised retail in women's apparel, which was 19% in Fiscal 2015, increased to 31% in Fiscal 2022 and is expected to reach 44% by Fiscal 2028, amounting to Rs. 1754.44 billion. By leveraging its experience in selling ethnic wear, it has over the years expanded its store portfolio to four formats, hybrids and derivatives thereof, each offering different set of products catering to the respective target segments and it continues to expand its product range to meet the demand of its different target segments. Kalamandir was established in 2005 with the first store opening in Ameerpet, Hyderabad in Telangana and the company markets the format as 'Symbol of the South' for its product offerings, affordability and brand equity. Mandir was established in 2011 with the first store opening in Banjara Hills, Hyderabad. The Mandir brand is the one stop destination of ultra-premium designer high-end sarees, including party wear, festive wear, occasional wear sarees, and lehengas which can be customized as per the requirements of customers. VaraMahalakshmi was established in 2011 with the first store opening in Chickpet, Bengaluru, providing customers the famous Kanchipuram silk sarees and other handloom and occasion wear sarees under one roof. KLM Fashion Mall is its store format offering, established in 2017, with the first one opening in Ameerpet, Hyderabad providing value-fashion catering to the youth and the masses with new-age fashion choices at an affordable, value for money price point. It offers variety of products for each segment, including men's wear, women's wear and kid's wear.

Catering to Local Market: The company designs and positions its stores in locations to target its customer segments and demographics. Its stores are strategically located in prime / central areas of the cities in which it operates, to tap the purchasing power of customers, with a cluster-based model. It generally opens new stores in the same city rather than extending its store network in other cities, in order to efficiently manage its stores and inventory. It has an experienced procurement team of more than 98 sourcing experts as of July 31, 2023, which acts as a key element towards effective stock selection and procurement

Marketing Activities: It has a focused marketing strategy and currently has engaged

popular south Indian actors as its brand ambassadors. It believes that 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. Sai Silks' sales and marketing strategies aim to increase brand awareness and brand recall, acquire new customers, and strengthen and reinforce its brand image. In Fiscal 2021, 2022 and 2023, its advertisement expenses were Rs. 87.18 million, Rs. 26.99 Crore, and Rs. 34.55 Crore, and accounted for 1.29%, 2.39%, and 2.56%, respectively, of its revenue from operations.

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: Launched in 2005, the company 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 achieve 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. The company considers its brand to be strong, its business model to be scalable, and this, coupled with effective operational processes and proven track record of profitable expansion, position it well to capitalise on this market opportunity.

Strong presence in offline and online marketplace with an omni-channel network: The company store formats have a strong offline and online presence. While it commenced its operations through its first 'Kalamandir' store in 2005 at Hyderabad, Telangana with a store size of 3,213 square feet, it has over the years expanded its stores to 54 stores in four major south Indian states, i.e., Andhra Pradesh, Telangana, Karnataka and Tamil Nadu, with an aggregate area of approximately 603,414 square feet as of July 31, 2023. Its average store size, calculated on the basis of its operating stores as of July 31, 2023, is 10,390 square feet for its Kalamandir format stores, 3,310 square feet for its Mandir format stores, 6,099 square feet for its VaraMahalakshmi format stores, and 18,400 square feet for its KLM Fashion Mall format stores, with wide variety of products across multiple price points, thereby catering to customers across all market segments. The seamless integration between its offline and online channels also ensures that its products are easily available to its customers.

Strategy

Expand its footprint within India through owned stores and franchise network by leveraging its brand appeal: In order to maintain its position as a leading apparel and saree retailer in south India, Sai Silks will continue to focus on expanding its network of stores in south India and other regions of the country. Sai Silks further intends to leverage its experience to expand its operations by opening new stores, hybrids and derivatives thereof in key cities across India. Using its brand leverage, product quality and customer engagement, it hopes to increase its footprint and scale of operations. Sai Silks expansion into newer markets offers it potential for market share gains, increased brand recognition and economies of scale. Sai Silks intends to open approximately 30 additional stores and these are planned over the course of the next two Fiscals with more focus on expanding its VaraMahalakshmi Silks store formats. It also intends to focus on expanding of the KLM Fashion Mall in order to tap the growing potential of valuefashion brand and propose to open 5 additional stores through a franchisee model.

Increase focus on sale of products through e-commerce: The Indian retail apparel sector saw an increased contribution in sales from the e-commerce sector as a result of the lockdowns imposed due to COVID-19. The e-commerce market in India has witnessed an accelerated growth and is expected to reach 11% (US\$ 156 billion) of the total retail market by Fiscal 2027 from its share of 4.6% in Fiscal 2020 (US\$ 36.6 billion) at a growth rate of approximately 23% CAGR. Sai Silks intends to continue to focus on further strengthening its online sales channels to benefit from evolving customer trends. It further intends to make investments in digital channels to build an omni-channel engagement experience for its customers and have a dedicated team for its e-commerce operations. It also intends to leverage its existing capabilities to increase its online presence by improving and upgrading its website.

Leverage technology to bring cost efficiency and enhance customer experience: Sai Silks intends to further improve its operating efficiency through global best practices. It currently uses an in-house ERP system that was developed by Soul of Pluto Tech LLP, a member of its Promoter Group.

The measures that it intends to undertake include investing further in its IT infrastructure by migrating into better software resources at the back-end of its operations in order to improve productivity and time savings. Sai Silks intends to expand and upgrade its existing warehouses to optimize its inventory and supply management.

Risk factor

- The business of the company heavily relies on women's saree sales.
- Most of its sales are generated from stores in Southern India.
- The nature of its business requires it to maintain sufficient inventories resulting into high inventory costs.
- The company has entered into a business assets transfer agreement to acquire the business assets of Sai Retail India Limited.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Trent	9067.24	487.60	13.77	149.24	28.15	73.01	1	2055.05	73054.45
Shoppers Stop	4067.32	107.69	9.92	70.78	37.43	18.76	5	702.10	7718.10
Aditya Bir. Fas.	12739.20	-274.89	-	-	7.17	31.44	10	225.50	21400.53
TCNS Clothing Co	1169.35	-56.96	-	-	3.91	96.82	2	378.60	2393.17
Vedant Fashions	1341.60	420.19	17.31	75.97	22.81	57.66	1	1315.05	31927.42
Go Fashion (I)	690.18	84.64	15.67	86.77	14.11	96.36	10	1359.75	7343.87
Sai Silks (Kalamandir) Limited	1351.47	97.59	6.36	34.89	3.41	65.03	2	222.00	3404.73

*Peer Comparison Financials are based on TTM

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.222, the stock is priced at pre issue P/E of 28.74x on FY23 EPS of Rs.7.72. Post issue, the stock is priced at a P/E of 34.89x on its EPS of Rs.6.36. Looking at the P/B ratio at Rs.222, pre issue, book value of Rs. 31.45 of P/Bvx 7.06x. Post issue, book value of Rs. 65.03 of P/Bvx 3.41x.

Considering the P/E valuation, on the lower end of the price band of Rs.210, the stock is priced at pre issue P/E of 27.19x on FY23 EPS of Rs.7.72. Post issue, the stock is priced at a P/E of 33x on its EPS of Rs.6.36. Looking at the P/B ratio at Rs.210, pre issue, book value of Rs. 31.45 of P/Bvx 6.68x. Post issue, book value of Rs. 65.03 of P/Bvx 3.23x.

Industry Outlook

The share of organised apparel retail which was 32% in 2020 is expected to increase to 48% in 2027. (Source: Technopak Report) The share of organised retail in women's apparel, which was 14% in Fiscal 2015, increased to 31% in Fiscal 2022 and is expected to reach 44% by Fiscal 2028, amounting to Rs. 1,754.44 billion.

Outlook

Inspired by India's vibrant culture, traditions, and heritage, the company offers a diverse range of products which includes various types of ultra-premium and premium sarees suitable for weddings, party wear, 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. However, the business is highly concentrated on the sale of women's sarees and is vulnerable to variations in demand and changes in consumer preference, which can have an adverse effect on the business. Besides, the business is mostly located in south India and any adverse effects in these regions may affect its business and profitability.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	20-September-23
BID/ISSUE CLOSSES ON	22-September-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	27-September-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	29-September-23
Credit of Equity Shares to demat accounts of Allottees	03-October-23
Commencement of trading of the Equity Shares on the Stock Exchanges	04-October-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	1351.47	1129.32	677.25
Total expenditure	1138.94	996.28	614.89
Operating Profit	212.53	133.05	62.36
OPM%	15.73	11.78	9.21
Other Income	7.45	3.69	1.85
PBDIT	219.98	136.74	64.21
Depreciation	41.01	30.82	29.46
PBIT	178.98	105.93	34.75
Interest	45.41	28.64	27.44
Profit before tax	133.57	77.29	7.31
Tax	35.98	19.60	2.18
PAT	97.59	57.69	5.13

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-23	As on 31-Mar-22	As on 31-Mar-21
Non-current assets			
Property, plant and equipment	204.71	163.17	158.73
Capital work-in-progress	0.00	0.00	2.12
Other Intangible assets	5.47	7.61	9.76
Right-of-Use assets	169.29	78.41	56.68
Financial assets			
Other financial assets	27.65	23.80	23.39
Other non-current assets	8.61	8.75	5.42
Total Non Current Assets	415.72	281.73	256.09
Current assets			
Inventories	689.75	476.43	366.97
Financial Assets			
Trade Receivables	2.88	1.89	2.26
Cash and Cash Equivalents	4.62	8.62	4.33
Bank balances other than cash and cash equivalents	45.09	38.40	18.56
Loans	34.40	16.20	5.50
Other financial assets	0.89	0.33	0.11
Other Current Assets	27.10	18.88	11.60
Total current assets	804.73	560.75	409.34
Total Assets	1220.45	842.49	665.42
Non-current liabilities			
Financial liabilities			
Lease Liabilities	166.38	69.05	46.70
Borrowings	65.38	48.66	57.36
Other financial liabilities	2.70	1.12	0.55
Provisions	4.64	2.52	3.00
Deferred tax Liabilities (net)	11.49	12.77	14.54
Total non-current liabilities	250.59	134.12	122.14
Current liabilities			
Financial liabilities			
Lease liabilities	14.03	17.59	15.37
Borrowings	280.12	211.83	159.87
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	3.40	0.00	0.00
Others	226.62	129.12	107.60
Other financial liabilities	31.81	25.31	12.56
Provisions	0.54	0.25	0.19
Other current liabilities	3.81	2.43	2.96
Current tax liabilities (Net)	12.20	21.19	1.76
Total current liabilities	572.53	407.71	300.29
Total	823.12	541.83	422.43
NET Worth	397.33	300.66	242.99
Net worth represented by:			
Equity Share Capital	24.07	24.07	24.07
Other Equity	373.27	276.60	218.93
Net Worth	397.33	300.66	242.99

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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