August 08, 2022

Kalyan Silks Trichur Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	60.00	60.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Long-term– Fund based – Term loan	30.00	30.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Short-term – Interchangeable	(60.00)	(60.00)	[ICRA]A2+; upgraded from [ICRA]A2
Total	**90.00**	**90.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade reflects the better-than-expected performance of Kalyan Silks Trichur Private Limited (KSTPL) in the recent quarters, and the expected steady operational and financial performances over the medium term, backed by its established presence and business diversification measures. KSTPL posted a healthy revenue growth of 36% in FY2022, albeit on a small base, backed by a healthy recovery in performance across key markets post the impact of the pandemic's second wave in Q1 FY2022. The overall growth was constrained by the tepid footfalls in the first quarter of the last quarter, due to the pandemic-induced store closures. Driven by the strong performance in Q1 FY2023, proposed store expansions and the expected steady demand conditions during the festive season, KSTPL is estimated to continue to register steady growth over the medium term. The revenue growth is estimated at a strong 30% in FY2023, buttressed by the strong sales in Q1 FY2023 against a weak performance in the corresponding quarter of the preceding fiscal, and an estimated 10-12% growth in the subsequent fiscals. KSTPL's operating margins also remained at a steady 12% in FY2022, supported by better economies of scale. However, with the rising raw material costs and increasing employee and marketing expenses towards new stores, the operating margins are likely to moderate by around 150-200 bps in the near term.

The ratings continue to derive comfort from KSTPL's comfortable financial profile, characterised by a conservative capital structure and adequate credit metrics. The company does not have any external bank debt as on March 31, 2022, with the entire debt on the books being constituted by lease liabilities. Despite the sizeable capital expenditure estimated at around Rs. 200 crore towards showroom expansion during FY2023 to FY2025, KSTPL's reliance on external debt is estimated to remain low. Key debt protection metrics, including Total Outside Liabilities to Tangible Networth (TOL/TNW) and interest coverage ratios, are estimated to be at 1.2 times and 5 times, respectively, in FY2023 and FY2024. The growth in earnings from operations in the recent quarters has also supported the improvement in the company's liquidity position. KSTPL's working capital limits remain largely unutilised and its current ratio (excluding current portion of lease liabilities) had improved to 1.4 times in FY2022 from 1.1 times in FY2021. The promoter's long experience and the company's track record of successfully ramping up volumes from new showrooms in the past, provide some comfort. KSTPL's strengths are partly offset by the intense competition in the apparel retail business from several large format stores and established brands, which result in continued high marketing spends to support brand recall, thus limiting the operating margins. The ratings also consider the inherently high working capital requirements in the business and high geographical concentration, as the Kerala showrooms contributed to more than 90% of revenues in FY2022.

The Stable outlook reflects ICRA's opinion that KSTPL's performance will continue to benefit from its established presence, ongoing geographical diversification and comfortable capitalisation levels.

Key rating drivers and their description

Credit strengths

Established market presence in Kerala – KSTPL has a healthy market position in the apparel retail market in Kerala and certain markets of Tamil Nadu and Karnataka, driven by the strong brand recall of 'Kalyan Silks'. Its established presence had ensured repeat footfalls from customers over the years, which drove its volume and scale economics. The promoter's rich experience and successful track record of establishing and operating retail-textile stores are expected to drive revenues and earnings, along with the proposed addition of textile showrooms in the coming quarters.

Comfortable financial profile – KSTPL's financial profile is characterised by a conservative capital structure and adequate credit metrics. Despite the inherently high working capital requirements in the business, KSTPL's dependence on external debt has remained low in the past. The company's incremental working capital requirements are met through its internal accruals and healthy credit period extended by its suppliers, as illustrated by its debt-free position over the years. The company's financial profile is expected to remain comfortable over the medium term despite the proposed sizeable capital expenditure, supported by steady earnings from operations.

Credit challenges

Intense competition from organized and unorganized players limits pricing flexibility– KSTPL experiences intense competition from other major organised retailers and unorganised local players, exposing its profitability to limited pricing flexibility and fluctuations in input costs. Given the increasing competition with continuous expansions undertaken by organised players and rising marketing spends to support volume share in existing and new markets, the margins are expected to be under pressure over the medium term. Further, KSTPL's sales, profitability, and cash accruals, like any other apparel retailer, are closely linked to macro-economic conditions, consumer confidence and spending patterns.

High geographical concentration- The Kerala market contributes to more than 90% of KSTPL's revenues, with 20 out of its 24 apparel showrooms located in the state. This exposes its revenues to market-specific concerns as witnessed in the recent fiscals, including store closures mandated by local authorities due to the pandemic and demand fluctuations arising from the performance of the region's economy. Further, there is significant revenue concentration from the central regions of Kerala, where it contributed to around 50% of its total revenue as of FY2022. The proposed store expansions within the Kerala market over the medium term are likely to support the company's operating performance, despite the rising competition from other market players.

Liquidity position: Adequate

KSTPL's liquidity is expected to remain adequate over the coming quarters, backed by increased earnings from operations, and a comfortable cash buffer. Cash buffer including free cash reserves, undrawn term loans and working capital facilities, aggregated to ~Rs. 181 crore at the end of March 2022. KSTPL's working capital facilities remain largely utilised over the last 12 months, with average utilisation of less than 5% for the period. Thus, despite the planned sizeable capital expenditure of around Rs. 110 crore and lease liabilities of around Rs. 30 crore over the next 12 months, the cash flows would remain comfortable, with the company likely to generate cash profit of ~Rs. 90 crore in FY2023 (apart from the cash buffer).

Rating sensitivities

Positive factors – Ratings may be upgraded upon sustained healthy growth in revenues and earnings through better business diversification, while maintaining its comfortable coverage metrics and liquidity position.

Negative factors – Pressure on KSTPL's ratings could arise if there are any sustained pressures on its revenues and profitability. Further, any sharp elongation of its working capital cycle or considerable debt-funded capital expenditure resulting in deterioration of its liquidity position and credit metrics could also result in a downgrade. A specific metric for a downgrade is if interest coverage reduces to less than 4 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textile Industry - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

KSTPL, promoted by Mr. T. S. Pattabiraman, is a leading apparel retailer with showrooms across the key markets of Kerala. The company has been operating in the Kerala market for over 100 years and has established a significant brand presence in the market. At present, it operates through 24 apparel showrooms and five hypermarkets across Kerala, Karnataka and Tamil Nadu.

Key financial indicators (audited)

KSTPL Standalone	FY2021 (Audited)	FY2022 (Estimates)
Operating income	734.7	1002.6
PAT	23.1	48.7
OPBDIT/OI	11.6%	11.9%
PAT/OI	3.1%	4.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	2.0	1.5
Interest coverage (times)	3.5	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					Aug 08, 2022	May 06, 2021	-	Jan 31, 2020	Oct 24, 2018
1	**Fund based – Cash Credit**	Long term	60.00	0.00	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	**Fund based – Term Loan**	Long term	30.00	0.00	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
3	**Interchangeable Limits**	short term	(60.00)	0.00	**[ICRA]A2+**	**[ICRA]A2**	-	**[ICRA]A2**	**[ICRA]A2**

Source: Company; Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Interchangeable limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	60.00	[ICRA]A-(Stable)
NA	**Proposed Term Loan**	NA	NA	NA	30.00	[ICRA]A-(Stable)
NA	**Working Capital Demand Loan (Sublimit of Cash Credit)**	NA	NA	NA	(60.00)	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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