June 27, 2024

Sri Ganapathy Silks Sankarankoil Private Limited: [ICRA]BB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-Based – Cash Credit	65.00	[ICRA]BB (Stable); assigned
Long Term – Fund-Based – Term loan	57.00	[ICRA]BB (Stable); assigned
Total	**122.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the established brand presence of Sri Ganapathy Silks Sankarankoil Private Limited (SGS) and its experience in the textile retail segment. SGS operates four retail stores across Tamil Nadu and is in advanced stage of setting up a new showroom in Kerala. SGS is a regional player that retails products in various categories, including silk sarees, readymade garments for men, women, kids, and home furnishings. Over the past four fiscals, its revenues have grown by 11.3% (CAGR) and touched Rs. 217.4 crore in FY2024 (provisional). SGS' operating margins have marginally improved to 10.5% in FY2024 from 8.4% in FY2023. A marginal revenue growth is expected in FY2025 with the addition of a new showroom in Palakkad (Kerala).

The rating, however, is constrained by high working capital intensity with high inventory holding and debt-funded store expansion, resulting in higher borrowings. Though its TD/TNW improved to 2.1 times in FY2024 from 2.4 times in FY2023, it remains leveraged. SGS' debt protection metrics had also remained weak with an interest coverage of 1.6 times and total debt/operating profit of 4.9 times in FY2024. The ratings are also constrained by intense competition in a fragmented industry structure and high geographical concentration.

The Stable outlook reflects ICRA's opinion that SGS will benefit from the new store addition, leading to an improvement in the operating metrics. Further, the outlook underlines ICRA's expectation that the company's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established presence in the retail industry – Sri Ganapathy Silks was founded in 1959 by T.M. Ganapathy Mudaliar as a proprietorship firm. Later in 2005, his sons had changed the constitution of the company to a private limited, and it was renamed SGS. Over the years, SGS has diversified its product portfolio to include silk sarees, non-silk sarees, readymade garments and fashion wear, among others. It operates four textile showrooms in three cities of Tamil Nadu and is in the advanced stage of setting up a new showroom at Palakkad to diversify its presence in Kerala.

Vast experience of promoter group – The promoters have nearly three decades of experience in the textile retail market and it is currently managed by Mr. Balasubramaniyan and family members of Ms. Umadevi. SGS operates under the brand name of Sri Ganapathy Silks and its revenues have increased at a CAGR of 11.3%, backed by its renowned brand in the apparel retail market, especially for silk saree, which support repeat footfall over the years. The promoters' vast experience and track record of establishing and operating retail textile stores are expected to drive revenues and earnings, going forward.

Credit challenges

Modest financial risk profile – SGS' operations are highly working capital intensive as it maintains higher inventory across the stores to meet demand, which leads to elongated inventory holding days, resulting in working capital intensity of 37.1% in FY2024. This coupled with debt-funded store expansion resulted in higher dependency on external borrowings, leading to a moderation in its financial profile. In spite of an improvement over FY2023, its debt coverage indicators remained moderate in FY2024, with an interest coverage of 1.6 times, total debt/operating profit of 4.9 times and TD/TNW of 2.1 times. Nevertheless, with an expected improvement in revenues and earnings, supported by new store addition, its debt protection metrices are likely to improve in the medium term.

Intense competition from organised and unorganised players limits pricing flexibility – SGS 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 continuous expansion undertaken by organised players and rising marketing costs to support volume share in the existing and new markets, the margins remained exposed to increasing competition. Further, SGS' sales, profitability, and cash accruals, like any other apparel retailers, are closely linked to macro-economic conditions, consumer confidence and spending pattern.

Exposed to high geographical concentration – The Coimbatore market contributed ~67% to revenues in FY2023 and FY2024. Moreover, all its showrooms are concentrated in a single state (Tamil Nadu). This exposes its revenues to market-specific concerns and demand fluctuations arising from the performance of the region's economy. The proposed store expansion in the Kerala market could support geographical diversification to an extent.

Liquidity position: Stretched

SGS' liquidity position is expected to remain stretched, considering the limit buffer available in its working capital borrowings. The average fund-based utilisation over the last 12 months ending in April 2024 stood at 96.3%, leaving a limited buffer of ~Rs. 1.5 crore. The entity has planned capex for Rs. 15 crore in FY2025, proposed to be funded through term debt of Rs. 10 crore and the balance through internal accruals. Its repayment obligations stood at ~Rs. 10.9 crore in FY2025 and Rs. 11.0 crore in FY2026. The company is expected to generate adequate cash flow towards meeting its debt repayment obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if revenues and profitability increase, leading to an improvement in the overall financial risk profile. Specific credit metrics that could lead to a rating upgrade include an interest coverage of more than 2.5 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue or profitability of the company, resulting in a deterioration in debt protection metrics on a sustained basis. Further, an elongation of the working capital cycle, which would adversely impact the liquidity position on a sustained basis, could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

Sri Ganapathy Silks was founded in 1959 by Late. T.M. Ganapathy Mudaliar as a sole proprietorship firm and later in 2005, his sons had changed the same to a private limited company and named it Sri Ganapathy Silks Sankarankoil Private Limited. It is currently managed by Mr. Balasubramaniyan and family members of Ms. Umadevi. SGS started with a single store in Coimbatore and expanded its presence to other parts in Tamil Nadu over the years. At present, it has four retail showrooms in Tamil Nadu and is in the advanced stage of setting up a new showroom at Palakkad (in Kerala) in FY2025. Its product portfolio includes silk sarees, non-silk sarees, readymade garments for children, men and women and fashion wear.

Key financial indicators (audited)

SGS	FY2022	FY2023	FY2024*
Operating income	175.1	216.3	217.4
PAT	2.4	2.9	4.4
OPBDIT/OI	9.5%	8.4%	10.5%
PAT/OI	1.4%	1.4%	2.0%
Total outside liabilities/Tangible net worth (times)	3.9	3.7	3.0
Total debt/OPBDIT (times)	6.6	6.3	4.9
Interest coverage (times)	1.4	1.5	1.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 27, 2024	-	-	-
1	**Cash credit**	Long Term	65.00	-	**[ICRA]BB (Stable)**	-	-	-
2	**Term loans**	Long Term	57.00	47.5	**[ICRA]BB (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-Based – Cash credit	Simple
Long term – Fund-Based – Term loans	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	65.00	[ICRA]BB (Stable)
NA	**Term Loan**	FY2021-FY2025	-	FY2025-FY2030	57.00	[ICRA]BB (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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