

October 08, 2024

## Kalyan Silks Trichur Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	85.0	85.0	[ICRA]A- (Positive); reaffirmed
Long term– Fund based – Term loan	30.0	30.0	[ICRA]A- (Positive); reaffirmed
Short term – Interchangeable	(60.0)	(60.0)	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>115.0</b>	<b>115.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation for Kalyan Silks Trichur Private Limited (KSTPL) considers the expected improvement in operational and financial performances over the medium term on the back of its established presence, expected benefits from the recent store additions and its comfortable financial profile. After witnessing a healthy revenue growth of ~23% in FY2023 on a YoY basis, KSTPL's consolidated revenues remained flat at Rs. 1,329.3 crore in FY2024 (provisional). Despite an improvement in gross contribution margins, KSTPL's operating margins moderated by 120 bps to 10.3% in FY2024 due to an increase in employee costs and advertisement expenses. Going forward, the growth in revenues is likely to be supported by incremental revenues from stores added in Kozhikode and Kollam locations and sustained footfalls at its existing stores. While the company has planned debt-funded store additions for ~Rs. 90 crore in FY2025, its financial profile is expected to remain comfortable, supported by its conservative capital structure and healthy coverage indicators. The total debt to operating profit and interest coverage ratios stood at 1.8 times and 4.7 times, respectively in FY2024. KSTPL's liquidity position has improved over the last two fiscals, backed by steady earnings and relatively lower reliance on external debt and retention of its earnings. The ratings also consider the promoter's long experience and track record of KSTPL in successfully ramping up volumes from new showrooms in the past, which provides additional comfort.

The ratings, however, remained constrained by the intense competition in the apparel retail business from several large format stores and established brands, which resulted in continued high marketing spends to support brand recall, thus limiting the operating margins. The ratings also factor in the inherent working capital requirements in the business and high geographical concentration as the Kerala showrooms contributed ~90% to revenues in FY2024.

The Positive outlook reflects ICRA's expectation of an improvement in KSTPL's scale of operations and margins in FY2025, supported by benefits derived from addition of recent showrooms.

### 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 economies of scale. The promoters' rich experience and successful track record of establishing and operating retail textile stores are expected to drive revenues and earnings, along with incremental revenues from the recent addition of new textile showrooms.

**Comfortable financial profile and healthy liquidity** – 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 last two years. The company's incremental working capital requirements are met through its internal accruals and healthy credit period extended by its suppliers. The company's financial profile is expected to remain comfortable over the medium term despite the ongoing larger debt-funded capital expenditure, supported by steady earnings from operations and healthy liquidity position.

### Credit challenges

**Intense competition from organised and unorganised 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 continuous expansion undertaken by organised players and rising marketing spends to support volume share in the existing and new markets, the margins remained exposed to increasing competition. Further, KSTPL's 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 risk** – The Kerala market contributes about 90% to KSTPL's revenues, with 20 out of its 24 apparel showrooms located in the state. Also, the entity has recently started six outlets catering to specific requirements of the boys' and girls' segments through its subsidiary, Fazyo India Private Limited. However, these stores are also located within Kerala and the entity derived 5.3% of its income from its overseas subsidiaries in FY2024. This exposes its revenues to market-specific concerns and demand fluctuations arising from the performance of the region's economy. Further, there is significant revenue concentration from the central regions of Kerala, which contributed around 44% to its total revenue in FY2024 (compared to 45% in FY2023). The proposed ongoing store expansions of KSTPL within the Kerala market over the medium term are likely to support the company's operating performance, despite rising competition from other market players.

### Liquidity position: Strong

KSTPL's liquidity is expected to remain strong, with likely healthy cash flow from operations, adequate unutilised lines of credit and liquid investments. On a standalone basis, KSTPL had free cash and liquid investments of ~Rs.138 crore as on March 31, 2024, and has a buffer in its working capital facilities of Rs. 82 crore as on July 31, 2024. The average utilisation of its working capital facilities stood at ~15% of its sanctioned working capital limits of Rs. 85 crore, over the last 12 months ending in July 2024. Thus, despite the planned debt-funded capital expenditure of ~Rs. 90 crore in FY2025 and the repayment obligation arising thereon, the cash flows are likely to remain comfortable with healthy fund flow from operations.

### Rating sensitivities

**Positive factors** – The 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** – KSTPL's outlook may be revised if there is sustained pressure on its revenues and profitability. Further, a sharp elongation of its working capital cycle or a considerable debt-funded capital expenditure, resulting in a deterioration of its liquidity position and credit metrics, could also result in a rating revision. A specific metric for ratings revision includes interest coverage reducing to less than 4 times, on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Retail</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KSTPL. Details of the entities considered for consolidation have been enlisted in Annexure-2.

## About the company

KSTPL, promoted by Mr. T. S. Pattabiraman in 2001, is a leading multi-brand apparel retailer with showrooms across the key markets of Kerala. The Group has been operating in the Kerala market for over 100 years and has established a significant brand presence. At present, it operates through 24 apparel showrooms across Kerala, Karnataka and Tamil Nadu and eight hypermarkets across Kerala. KSTPL through its subsidiaries has eight stores across Dubai, Sharjah and Oman and six additional Fazyo retail outlets in Kerala.

## Key financial indicators

KSTPL Consolidated	FY2023	FY2024*
Operating income	1326.2	1329.3
PAT	93.7	63.1
OPBDIT/OI	11.6%	10.3%
PAT/OI	7.1%	4.7%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	1.1	1.8
Interest coverage (times)	5.5	4.7

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)	October 08, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based – Cash credit	Long term	85.0	[ICRA]A-(Positive)	28-Aug-23	[ICRA]A-(Positive)	08-Aug-22	[ICRA]A-(Stable)	06-May-21	[ICRA]BBB+(Stable)
Fund based – Term loan	Long term	30.0	[ICRA]A-(Positive)	28-Aug-23	[ICRA]A-(Positive)	08-Aug-22	[ICRA]A-(Stable)	06-May-21	[ICRA]BBB+(Stable)
Interchangeable limits	Short term	(60.0)	[ICRA]A2+	28-Aug-23	[ICRA]A2+	08-Aug-22	[ICRA]A2+	06-May-21	[ICRA]A2

## 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	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: [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	NA	NA	NA	85.0	[ICRA]A- (Positive)
NA	Term Loan	FY2024	NA	FY2029	30.0	[ICRA]A- (Positive)
NA	Interchangeable limits - Working Capital Demand Loan	NA	NA	NA	(60.0)	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fazyo India Private Limited	98%	Full consolidation
M Star Hotels Private Limited	100%	Full consolidation
Kalyan silks FZE	100%	Full consolidation

Source: KSTPL.

The consolidated financials of above-mentioned entities capture the financials of their respective subsidiaries/associates, i.e. indirect/ step subsidiaries of KSTPL (not listed in the table above).

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