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Sai Silks (Kalamandir) Ltd.

INSTITUTIONAL RESEARCH

Sai Silks (Kalamandir)

Draping south India in sarees

Launched in FY05, Sai Silks (Kalamandir) Ltd (SSKL) is one of the largest apparel retailers in south India offering products across ethnic wear (sarees) and value fashion. It houses four popular brands—Kalamandir (KMR), Kancheepuram, Vara Mahalakshmi Silks (VML), Mandir (MDR), and KLM Fashion Mall (KLM)— straddling multiple price points. The company's extremely concentrated expansion approach (FY23 presence: 54 stores; 6,03,414 sq. ft in just 12 southern districts) ensures superior unit economics vis-à-vis most apparel peers (FY20-23 FCF/PAT conversion of 54%; FY20-FY23 average RoCE: 13-14%). IPO proceeds (INR 5.66bn) will be utilised primarily to expand the more lucrative VML format in Tamil Nadu. We build in sales/EBITDA/PAT CAGRs of 19/27/40% for FY23-26E with average RoCEs of ~16% for FY23-26. Initiate coverage on SSKL with a BUY rating and a DCF-based TP of INR385/sh (implying 26/17x Sep-25 PE/EV-EBITDA respectively).

- **A benefactor of unorganised to organised migration in sarees:** Historically, the retail trade of sarees was dominated by unorganised players in small format stores. SSKL, along with a few other organised retailers, continues to solve the need to consolidate SKUs/variety on offer for consumers via large-format retailing. The saree market in south India is pegged at ~INR262bn (overall saree market: ~INR523.93bn). SSKL (~5% market share) is expected to be the key beneficiary of this value migration as it is attacking a broad consumer cohort at multiple prices—KMR (ASP: INR1,760), VML (ASP: ~INR4,800), MDR (ASP: ~INR13,400), and KLM (ASP: ~INR800).
- **SSKL—a smart scaler:** SSKL has been a disciplined scaler with an extremely concentrated cluster-based expansion approach. Of the 150+ south districts, SSKL is only present in 12 (presence: 54 stores spanning 6,03,414 sq. ft as of Mar-23). Such a dense presence typically (1) helps improve brand recall within catchments, ergo aids sales density and (2) keeps the cost of retailing tight. Note: SSKL enjoys amongst the highest revenue/sq. ft (~INR22k/sq. ft) and among the lowest retailing cost within apparel retail (~25% of sales).
- **Tamil Nadu (TN) foray holds promise:** TN market (INR74bn, 32% share in South) enjoys higher footfall density and consumer affinity for saree purchases. Hence, it is key for all saree brands. Most of SSKL's IPO proceeds (INR5.66bn) are earmarked to expand its TN presence via VML (~2x revenue/sq ft; 3-4x EBITDA/sq. ft vs company average). Given that SSKL has a mere 1% share in TN, SSKL's foray into the state via VML seems promising—in terms of both growth and unit economics (note: 25 out of 30 stores earmarked for expansion will be VML stores and in TN).
- **Track record and expectations:** SSKL's growth resilience and product affinity can be seen in its near-complete top-line recovery from the pandemic blues by FY22. In FY23, it continued to improve its performance (up 19% YoY; INR13.52bn; FY16-23 revenue CAGR: 16.7%). Pre-IND AS 116 EBITDAM expanded (9.3% in FY20 vs 13.7% in FY23; HSIE), led by continued premiumisation across formats and price hikes. Note: RoCE/RoE improved from 17/20% in FY20 to 19/27% in FY23 respectively. For FY23-26, we build in 19% revenue CAGR and an EBITDAM expansion of ~300bps primarily trickling down from GM gains as (1) SSKL earns higher sourcing margins from vendors by offering them better terms of trade and (2) the premiumisation drive continues. 15/16.7% Pre-IND AS 116 EBITDAM baked in for FY25/26. 40% PAT CAGR built with a stable return profile for FY23-26.
- **Key risks:** 1. Highly concentrated in a single product category (saree). 2. A slip-up in SKU management (saree is a high SKU/store product) could impact working capital. 3. Heightened competitive intensity from e-tailers.

BUY

CMP *(as on 22 Nov 2023)*	**INR 283**
Target Price	**INR 385**
NIFTY	**19,812**

KEY STOCK DATA	
Bloomberg code	SSKL IN
No. of Shares (mn)	153
MCap (INR bn) / ($ mn)	43/532
6m avg traded value (INR mn)	-
52 Week high / low	INR 296/220

SHAREHOLDING PATTERN (%)	**Sep-23**
Promoters	60.8
FIs & Local MFs	14.5
FPIs	7.1
Public & Others	17.6
Pledged Shares (%)	29.2

Source : BSE

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Financial Summary (INR mn)

	FY22	FY23	FY24E	FY25E	FY26E
Profit and Loss Statement					
Net Sales	11,361	13,515	14,521	18,494	23,025
EBITDA	1,420	2,125	2,406	3,112	4,235
EBITDAM (%)	12.5	15.7	16.6	16.8	18.4
EBITDA (Pre-IND AS 116)	1,261	1,858	2,093	2,751	3,843
Pre-IND AS 116 EBITDAM (%)	11.1	13.7	14.4	14.9	16.7
APAT	544.1	975.88	1,141	1,890	2,690
APATM (%)	4.8	7.2	7.9	10.2	11.7
Dil. EPS (Rs/sh)	4.5	8.1	7.4	12.3	17.5
Balance Sheet					
Networth	3,160	3,973	10,604	12,582	15,379
Debt	2,828	3,455	2,455	855	755
Other non-current Liabilities	1,230	1,946	1,946	1,946	1,946
Total Liabilities	**7,218**	**9,374**	**15,005**	**15,383**	**18,080**
Net Block (incl C-WIP)	1,698	2,047	2,143	2,301	2,338
Working Capital (ex-cash & Eq)	3,621	4,720	5,270	6,459	8,041
Cash & Equivalents	486	497	6,418	5,471	6,622
Other assets	1,412	2,110	1,174	1,152	1,079
Total Assets	**7,218**	**9,374**	**15,005**	**15,383**	**18,080**
Cash Flow Statement					
Cash from Operations	1,084	412	1,129	897	1,320
Cash from Investing	-425	-601	-211	-84	-39
Cash from Financing	-629	149	4,067	-1,782	-203
FCFF	**823**	**-189**	**744**	**406**	**935**
Key Ratios					
P/E (x)		45.0	38.5	23.3	16.3
P/B (x)		8.7	4.1	3.5	2.9
EV/EBITDA (x)		25.3	19.1	14.3	9.9
ROE (%)		27.4	15.6	16.3	19.2
RoIC (%)		19.4	18.6	22.1	27.0
ROCE (%)		18.8	13.9	15.1	18.4
Revenue Mix (%)					
KMR		17	16	14	12
MDR		3	3	3	2
VML		39	44	52	57
KLM		39	36	31	28
E-Comm		1	1	1	1

Source: Company, HSIE Research

Peer Valuation

Company	CMP	M cap (INR bn)	Reco	TP
F&G				
Avenue Supermarts	3,827	2,481	Sell	3,200
Apparel & Innerwear				
ABFRL	216	205	Sell	170
Shoppers Stop	665	73	Sell	560
V Mart	1,744	34	Reduce	1,850
Trent	2,638	938	Sell	1,650
SSKL	287	44	Buy	385
Jewellery				
Titan Company	3,423	3,039	Sell	2,675
Footwear				
Bata India	1,606	206	Reduce	1,450
Relaxo Footwears	897	223	Sell	710
Metro Brands	1,370	372	Sell	840
Horizontal/Vertical Retailers				
Nykaa	172	491	Reduce	130
Paints & Adhesives				
Asian Paints	3,133	3,005	Reduce	3,000
Berger Paints	572	555	Add	575
Kansai Paints	316	255	Add	330

Source: Company, HSIE Research

Peer Valuation

Company	Revenue (Rs. bn)				EBITDA (Rs. bn)				Adj. PBT*				Adj. PBTM (%)				EPS (Rs)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
F&G																				
Avenue Supermarts	418	497	592	699	35	43	53	63	30.7	36.6	44.4	53.6	7.3	7.4	7.5	7.7	39.4	44.3	53.8	64.9
Apparel & Innerwear																				
ABFRL	124	141	161	182	15	14	19	24	(2.1)	(8.8)	1.6	5.0	(1.7)	(6.3)	1.0	2.7	(0.7)	(5.0)	2.6	6.4
Shoppers Stop	40	44	50	57	3	3	3	4	1.4	1.2	1.6	2.2	3.5	2.7	3.3	3.8	14.1	9.8	12.6	16.5
V Mart	25	29	33	39	1	0	1	2	0.3	(0.5)	0.3	1.2	1.2	(1.6)	1.0	3.1	25.3	(13.5)	14.9	46.9
Trent	77	111	145	171	11	15	18	23	4.3	8.1	9.8	12.6	5.6	7.3	6.7	7.4	15.6	22.9	26.9	33.4
SSKL	14	15	18	23	2	2	3	4	1.3	1.4	2.1	3.2	9.3	9.3	11.5	14.1	6.4	7.4	12.3	17.5
Jewellery																				
Titan Company	406	491	549	614	49	54	63	72	41.4	45.7	52.9	59.8	10.2	9.3	9.6	9.7	36.9	41.3	48.9	57.5
Footwear																				
Bata India	35	37	42	48	5	6	6	8	3.9	4.4	5.3	6.5	11.3	12.0	12.7	13.7	25.1	28.6	34.7	42.5
Relaxo Footwears	28	31	35	40	3	4	5	6	1.9	3.3	4.1	5.0	7.0	10.5	11.6	12.5	6.3	10.6	13.4	16.3
Metro Brands	21	24	29	34	7	7	9	10	4.3	4.3	5.1	6.2	20.4	17.7	17.8	18.2	13.4	13.7	16.7	20.2
Horizontal/Vertical Retailers																				
Nykaa	51	64	83	104	3	4	6	8	0.1	0.6	2.2	4.1	0.2	1.0	2.7	4.0	0.1	0.2	0.7	1.3
Paints & Adhesives																				
Asian Paints	345	366	411	463	63	75	84	94	52.6	65.0	71.1	80.9	15.2	17.8	17.3	17.5	45.2	53.9	58.7	66.9
Berger Paints	106	116	130	149	15	20	23	26	11.2	16.3	18.5	21.4	10.6	14.0	14.2	14.4	8.9	10.9	12.6	14.8
Kansai Paints	75	81	92	103	8	11	12	13	6.1	8.3	9.3	10.3	8.1	10.2	10.1	10.0	5.8	8.4	9.2	10.2

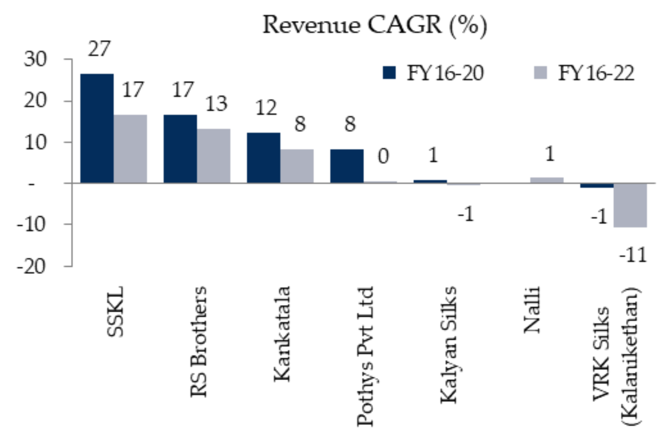
Source: Company, HSIE Research, Note: Adj. PBT* denotes Rep. PBT less non-operating other income

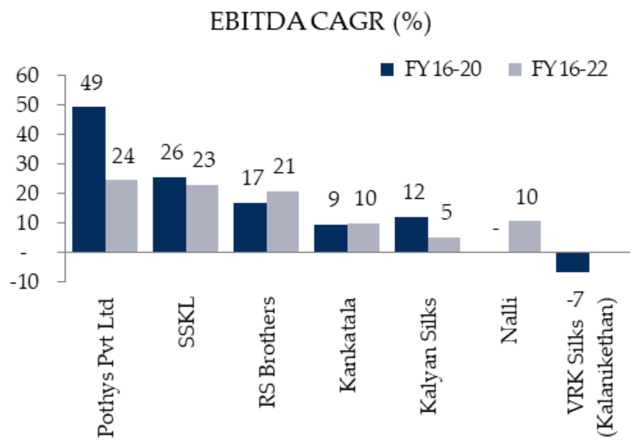
Company	P/E (x)				EV/EBITDA (x)				P/Adj. PBT				RoE(%)				RoCE(%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
F&G																				
Avenue Supermarts	97	86	71	59	71	57	47	39	81	68	56	46	16.8	16.0	16.5	16.9	16.3	15.7	16.2	16.6
Apparel & Innerwear																				
ABFRL	(309)	(43)	85	34	44	63	33	24	(100)	(23)	129	41	(1.9)	(13.5)	6.0	11.0	2.9	0.5	8.1	11.3
Shoppers Stop	47	68	53	40	21	21	18	14	51	62	44	33	93.6	37.6	33.9	31.8	17.7	11.5	13.0	6.4
V Mart	69	(129)	117	37	39	111	30	17	115	(75)	105	29	5.5	(2.8)	3.1	9.2	5.8	(2.3)	2.9	8.3
Trent	168	115	98	79	83	62	50	40	216	116	96	74	19.1	23.9	23.2	24.0	11.6	13.1	12.6	13.0
SSKL	45	39	23	16	25	19	14	10	35	33	21	14	27.4	15.6	16.3	19.2	18.8	13.9	15.1	18.4
Jewellery																				
Titan Company	93	83	70	59	64	58	49	43	73	66	57	51	31.0	27.7	26.7	26.0	17.4	16.8	16.5	15.9
Footwear																				
Bata India	64	56	46	38	42	36	31	26	53	47	39	32	17.9	19.2	23.4	24.6	17.9	18.8	22.5	23.8
Relaxo Footwears	141	85	67	55	78	50	41	34	115	69	55	45	8.7	13.4	15.5	17.1	8.1	12.4	14.6	16.5
Metro Brands	102	100	82	68	54	49	42	35	86	87	73	60	26.0	20.9	20.5	20.9	28.8	23.6	22.9	23.1
Horizontal/Vertical Retailers																				
Nykaa	#####	733	248	136	190	134	84	59	5,996	773	221	118	1.8	4.7	12.8	19.8	3.2	5.2	8.7	11.4
Paints & Adhesives																				
Asian Paints	69	58	53	47	47	40	36	32	57	46	42	37	27.2	29.8	27.8	27.0	23.5	25.9	24.6	24.3
Berger Paints	65	52	45	39	38	33	28	25	49	34	30	26	20.4	25.6	24.3	23.5	17.1	21.1	20.8	20.6
Kansai Paints	57	39	36	32	33	24	22	20	42	31	28	25	10.8	13.4	12.7	13.2	10.8	13.3	12.7	13.1

Source: Company, HSIE Research, Note: Adj. PBT* denotes Rep. PBT less non-operating other income

Focus Charts

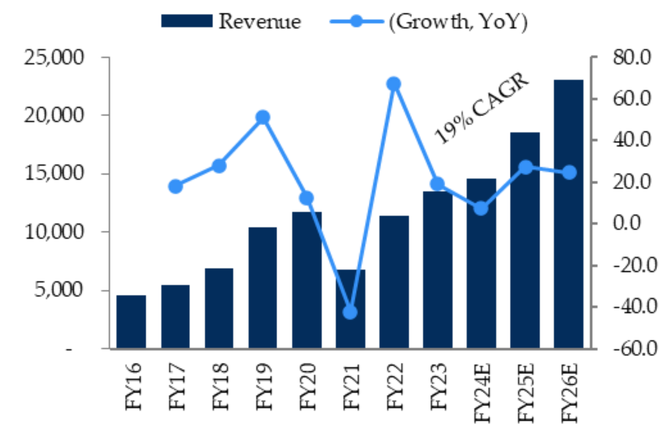
SSKL has consistently gained share over FY16-22 even among immediate peers (Grew revenue/EBITDA at 17/24% CAGR)

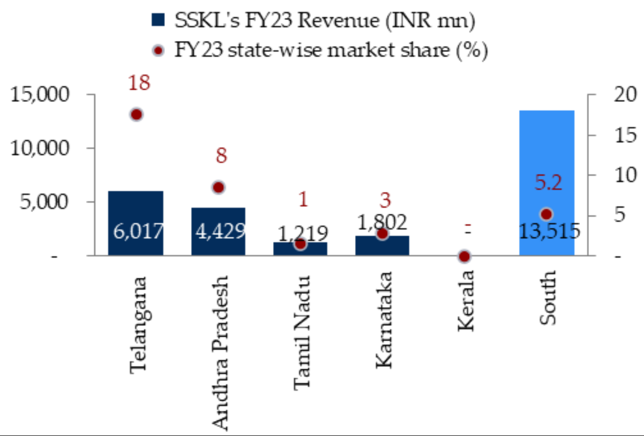




Source: Company, HSIE Research, Note: for SSKL FY16-23 CAGR and for all unlisted companies, FY19-22 CAGR used for revenue and EBITDA

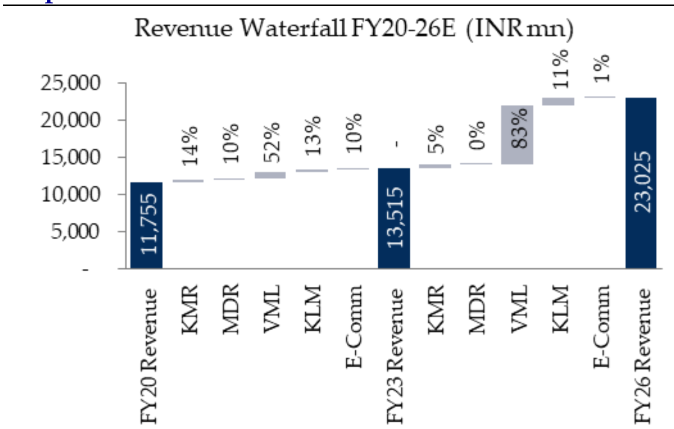
Focus on TN market for expansion (via VML) will be the key anchor for growth over FY23-26

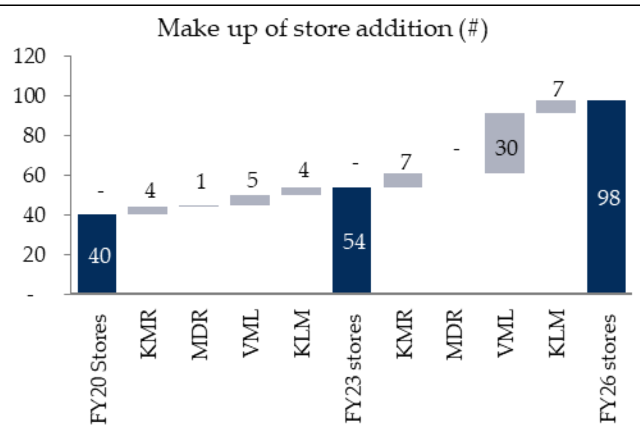




Source: Company, HSIE Research

25 out of 30 stores to be added via IPO proceeds are earmarked for the unit-economics accretive VML format…we expect VML to add 80%+ of SSKL's incremental revenue over FY23-26





Source: Company, HSIE Research

Contents

The Offer & Its Objects:

SSKL raised ~INR12bn via its recent public listing (INR6bn each in terms of OFS and fresh issue). The INR6bn raised from the fresh issue is predominantly earmarked towards (1) adding 30 new stores and two warehouses; (2) reducing debt by INR500mn; and (3) making advance payments or early payments to vendors (INR2.8bn investment) to earn better sourcing margins.

Offer Size

Offer	5,40,99,027 equity shares for cash price of INR 222/share (incl. a premium of INR 220/share), aggregating to INR 12,009.98mn
of which	
Fresh Issue	2,70,27,027 equity shares, aggregating to INR 6000mn
Offer for sale	2,70,72,000 equity shares, aggregating to INR 6009.98mn

Source: Company RHP, HSIE Research

List of Selling Shareholder

Name of Selling Shareholder	No. of shares offered in OFS
Nagakanaka Durga Prasad Chalavadi	64,09,345
Jhansi Rani Chalavadi	79,49,520
Dhanalakshmi Perumalla	30,83,865
Doodeswara Kanaka Durgarao Chalavadi	6,56,295
Kalyan Srinivas Annam	63,46,975
Subash Chandra Mohan Annam	21,20,500
Venkata Rajesh Annam	5,05,500

Source: Company RHP, HSIE Research

Proposed implementation and deployment of net proceeds

Pariculars (INR mn)	FY24	FY25	FY26	Total
Store Capex (30 Stores)	305	728	218	**1,251**
Warehouse Capex (2 Warehouse)	254	-	-	**254**
Working Capital requirement	723	1,567	511	**2,801**
Payment of borrowings	500	-	-	**500**
General & Corporate purpose	857	-	-	**857**
Total	**2,639**	**2,295**	**728**	**5,662**

Source: Company RHP, HSIE Research

Breakup of 30 new stores to be opened using IPO proceeds

States	Vara Mahalakshmi			Kalamandir			Total		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Andhra Pradesh	-	-	-	-	1	-	-	1	-
Tamil Nadu	7	13	5	-	-	-	7	13	5
Telangana	-	-	-	-	4	-	-	4	-
Total	**7**	**13**	**5**	**-**	**5**	**-**	**7**	**18**	**5**

Source: Company RHP, HSIE Research

Break-up of capital expenditure (Stores + warehousing)

Particular	INR mn
Cost of fit-outs to be installed in the new stores	792.5
Security deposit / Rental advance	83.4
Visual, branding, signage, store inauguration costs	375.0
Total	**1,250.8**

Source: Company RHP, HSIE Research

Breakup of 2 warehouse	Location	
Particular (INR mn)	**Chennai**	**Hyderabad**
Civil work	78.6	28.9
Furniture and Fixtures	93.6	31.8
Plant and Machinery	13.0	4.2
Computers	2.9	1.0
Total	**188.1**	**65.9**

Source: Company RHP, HSIE Research

Incremental working capital needs/deployment and funding pattern

Particulars (INR mn)	FY24	FY25	FY26
Current assets			
Inventories	7,033	7,897	8,246
Trade receivables	72	75	79
Cash and cash equivalents including Bank balance*	3,237	991	425
Other assets	2,432	3,190	4,765
Total current assets (I)	**12,775**	**12,154**	**13,516**
Unutilised IPO Proceeds (A)	2,078	511	-
Net current assets (I) – (A)	**10,697**	**11,643**	**13,516**
Current liabilities			
Trade payables	1,567	861	413
Other liabilities	1,009	1,571	2,160
Borrowings	2,119	733	45
Total current liabilities (II)	**4,694**	**3,165**	**2,619**
Total working capital requirement (III) = (I-C) – (II)	**6,962**	**8,730**	**10,517**
Fund Pattern			
Internal accruals	4,120	6,431	9,961
Usage from Net Proceeds	723	1,567	511
Borrowings	2,119	733	45
Total	**6,962**	**8,730**	**10,517**

Company RHP, HSIE Research

WC expectations (in days) – Company vs HSIE expectations

Particulars (in days)	Company's Projection			HSIE Estimates		
	FY24	FY25	FY26	FY24	FY25	FY26
Inventory	165	145	119	180	165	155
Trade Receivables	2	1	1	1	1	1
Trade Payables	37	16	6	50	40	30
Total	**130**	**130**	**114**	**131**	**126**	**126**

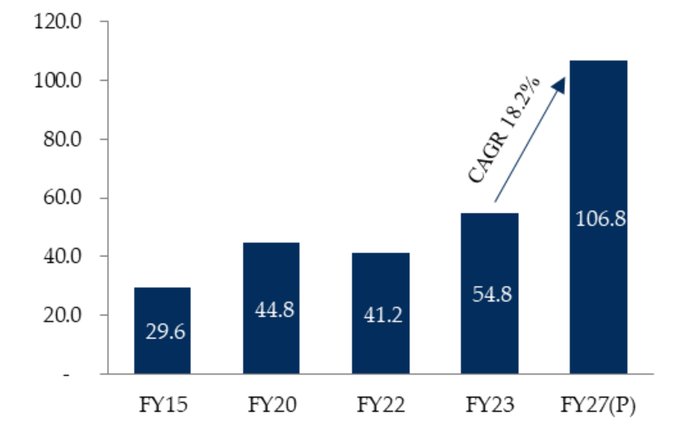
Company RHP, HSIE Research

Industry Structure and Size

Indian apparel market size

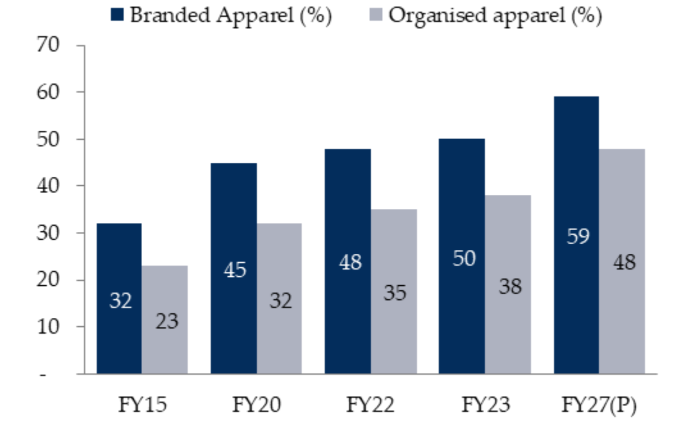
India's apparel market was INR 4,477.5 bn (USD 55.9 bn) in FY20 and reached a market value of INR 4,117.5 bn (USD 51.4 bn) in FY22 and is expected to grow at a CAGR of ~21% to hit INR 10,669.7 bn (USD 133.53 bn) by FY27 on the back of factors like rising brand consciousness, increasing digitization, greater purchasing power and increasing urbanization. Over FY20-27, the long-term trendline growth of apparel is expected to be ~13.2%. The branded retail and organised apparel retail are expected to grow faster at CAGRs of ~17.7% and ~19.9% respectively over FY20-27 as consumers increasingly shop with organised players.

Apparel Market Size in India (INR bn)



Source: Technopak analysis
Note: Year indicates FY; Excludes accessories (Bags, Belts, Wallets etc.)

Share of branded apparel and organised apparel (%)

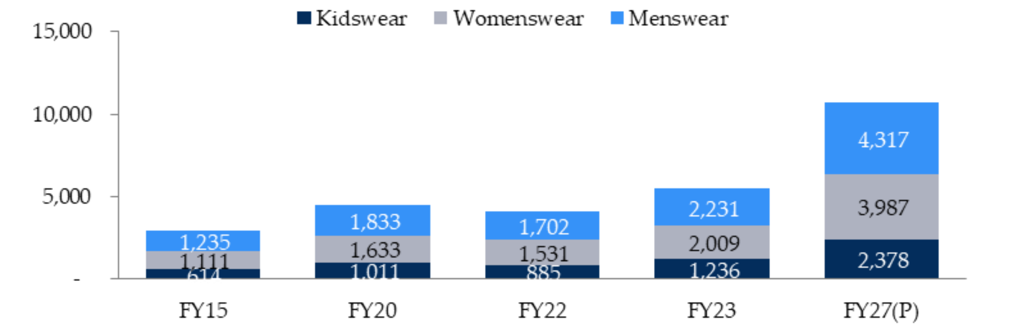


Source: Technopak analysis
Branded apparel signifies registered trademarks that are regularly patronized by customers and that are sold through both organised retail and trade channels. Organised retail signifies formal retail channels of EBOs, MBOs, large format stores, e-commerce etc.

Product segmentation

- **Constituents of the apparel market:** Men's apparel constituted ~41% and women's apparel share was estimated to be ~37% of the total apparel market in FY22. The balance of ~22% is contributed by kids' apparel. Out of the total apparel market, Indian wear accounted for approximately 30% or INR 1,244.28 bn (~USD 15.5 bn) (FY22) and the balance 70% of the market comprised of western wear. The high share of Indian wear in the total apparel is a unique feature of the apparel market in India. In the women's wear market, Indian wear contributed ~67% to the total market. For Indian women, Indian fashion is a mainstream need for both festive and daily wear uses, whereas, for men, it is currently restricted to occasion wear viz. weddings and festivals.

Apparel market by gender (INR bn)



Source: Technopak analysis

Women's apparel market in India

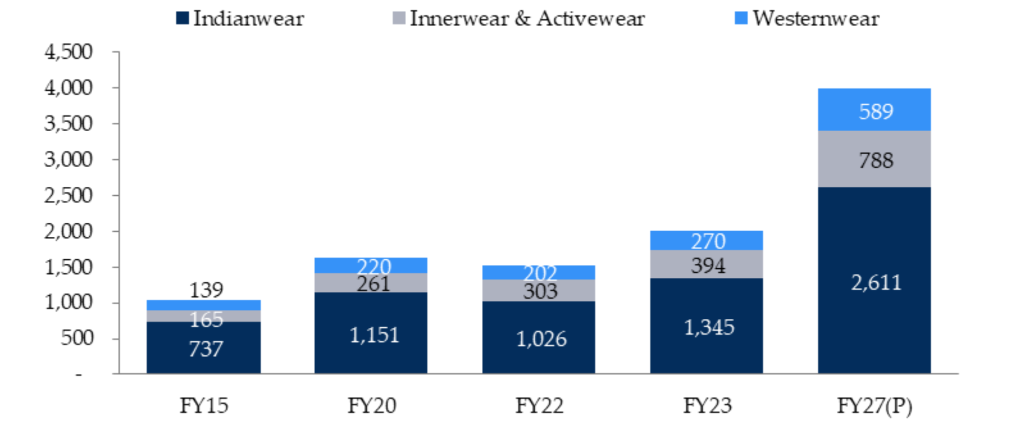
The women's apparel market contributed ~37% of the total apparel market of India in FY22 pegged at INR 1,530.86 Bn. (~USD 19.1 Bn.). This segment is expected to grow at a CAGR of 21.1% for the next five years to reach INR 3,987.24 Bn (USD 49.8 Bn) by FY27 (Source: Company RHP). Factors like sustained growth of Indian daily wear; continued demand for Indian festive wear; rising share of organised retail; design innovations and changing consumer demographics etc. are aiding the growth of the Indian women's wear market.

The share of organised retail in women's apparel which was 19% in FY15 increased to 31% in FY22 and is expected to reach 44% by FY27 (INR 1,754.39 bn). The emergence of organised retail channels (EBOs, LFS/MBO, Value Retail, E-Commerce) and the scale of organised players such as Biba, Fabindia, Reliance Trends, Trent, Westside, Shopper Stop, ABRFL etc. have managed to address the consumer demands better than unorganised segment enabling transition of consumer demands towards organised retail in the women apparel sector.

Segmentation of the women's apparel market in India

Indian wear is the largest segment within the women's apparel market in India and contributes around 67% of the women's market in FY22. Despite having a high current share, the share of Indian wear in the overall women's apparel segment will continue to be resilient in future. In most major apparel markets (China, Japan, Southeast Asia, etc.), nearly the entire apparel category is made up of western wear. Indian fashion is influenced by Indian ethos and values which impact the apparel's cut, shape, silhouette and nature of raw material used (not restricted to power loom but also extends to handloom fabrics). In this context, the Indian women's apparel industry's categorization into Indian wear and western wear is significant, given the Indian wear's size and its unique existence compared to other major markets.

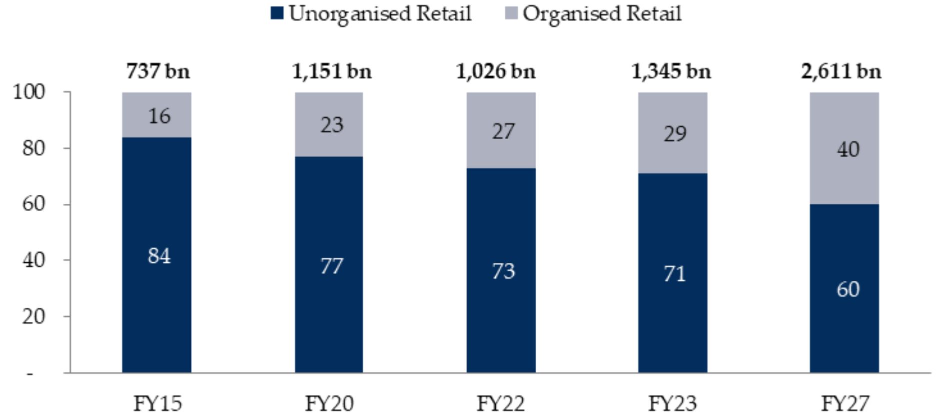
Segment contribution within women's apparel market (INR Bn)



Source: Technopak Analysis. Western Wear (excluding innerwear and activewear) includes tops/shirts, t-shirts, Denim, formal jackets, sleepwear, trousers/skirts, winterwear and clothing accessories

In FY22, 73% of women's Indian wear was sold through the unorganised/traditional channel. However, the share is expected to reduce to 60% by FY27, enabled by the growth of organised retail players (retail-led brands) taking a multichannel retail route, expansion of value retailers and LFS formats, and growth of e-commerce. The organised women's Indian wear was estimated at INR 277 bn in FY22 and is expected to grow at a CAGR of 30.4% for the next five years to reach INR 1,044 bn by FY27.

Organised vs. unorganised women Indian wear retail split (%)



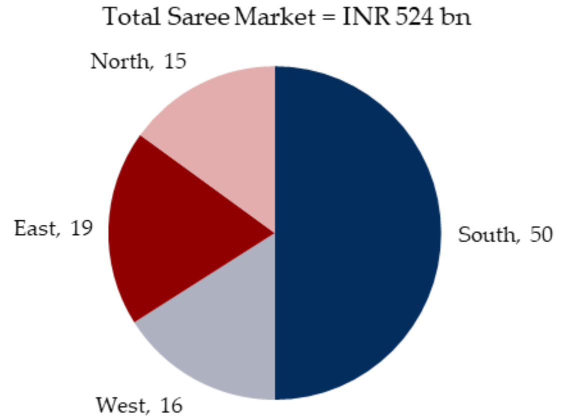
Source: Technopak Analysis, RHP

Region-wise saree market

Women's Indian wear market is further segmented into key categories—saree and others (others including lehengas, Indian dresses/gowns, etc.) and SKD (sets, mix and match and others (dupattas/stoles etc). Within this, the saree market was valued at INR 523.93 bn in FY22 and is expected to reach INR 678.63bn by FY23. This category, though the earliest form of apparel for women in India, with a strong and large base, continues to grow despite the advent of different apparel for women in the form of SKD, lehengas, dresses, etc, showing that saree continues to be the choice of apparel for the majority of women in India.

The south Indian region was the top contributor to the saree market in India in FY22 with 50% of saree sales coming from this region. It was followed by east India, which contributed to 19% of saree sales, closely followed by the west and north regions, contributing 16% and 15% respectively.

Region-wise share of saree market (FY22) (%)

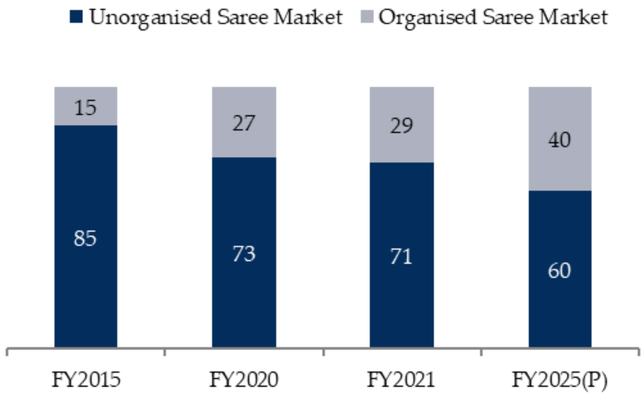


Source: Technopak Analysis

South Indian saree market: state-wise

The south Indian saree market, which was valued at INR 262 bn in FY22, contributes 50% to the overall Indian saree market. The organised south saree market was valued at INR 114 bn for FY22 and it is expected to grow at 28% CAGR (as per RHP) to reach INR 393 bn by FY27. The south saree market is split into the states of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana and Kerala. With an estimated 32% market share and a value of ~INR 74 billion for FY20, Tamil Nadu is the market leader in south India for sarees. Karnataka is next, valued at ~INR 56 bn as of FY20 (all figures quoted are as per Technopak or RHP).

Organized vs unorganized saree market share (%)



Source: Company DRHP, HSIE Research

State-wise share and size of south Indian saree market (FY20) (INR bn)

State	Share of South India Saree Market	Approximate Size of Saree Industry (INR Bn)
Tamil Nadu	32%	74
Karnataka	24%	56
Andhra Pradesh	20%	46
Telangana	13%	30
Kerala	11%	26

Source: DRHP, HSIE, Research

The south Indian region is the leading one for sarees in India and it is home to the majority of the leading saree players. Players like Sai Silks Kalamandir, Pothys, Nalli, etc., all have origins in south India.

The key organised players and their share in the south Indian saree market are given below:

Comparison vs. Peers

Key players and market share in South India saree market (FY22)

Players	Revenue (INR Bn)	EBITDA (INR Bn)	APAT (INR Bn)	Approx. Share of saree in revenue of the company	% Market Share in South India Saree market
Pothys	11.93	1.86	0.83	75%	5%
RS Brothers	15.52	1.09	0.47	60%	4%
Kalyan Silks	10.79	0.88	0.63	70%	3%
Sai Silk Kalamandir	11.36	1.26	0.54	65%	3%
Nalli	5.29	0.48	0.24	90%	2%
VRK Silks(Kalanikethan)	1.03	-0.24	0.42	85%	2%
The Chennai Silk	3.16			75%	1%
Cooptex	3.00			75%	1%
Kankatala	1.75	0.11	0.01	80%	1%

Source: Technopak Analysis

Note: Cooptex revenue numbers are as on FY20 and as per DRHP

A sneak peek into Sai Silks (Kalamandir)

Launched in FY05, Sai Silks (Kalamandir) Ltd (SSKL) is one of the largest apparel retailers in south India, offering products across ethnic wear (predominantly sarees) and value fashion. The retailer houses four popular brands—Kalamandir, Kancheepuram Vara Mahalakshmi Silks, Mandir and KLM Fashion Mall—straddling multiple price points. Their cluster-based presence (spanning 54 stores; 6,02,414 sq. ft) across the four southern states (Telangana, Karnataka, Andhra Pradesh, and Tamil Nadu) ensures superior operating efficiencies/unit economics.

Sai Silks (Kalamandir) Ltd—key milestones

Calendar year	Events
2005	Launch of first retail store in Ameerpet (Hyderabad)
2008	Converted the partnership firm into a private limited company on July 3, 2008, under the name and style of 'Sai Silks (Kalamandir) Private Limited'.
2009	Converted the private limited company into a public limited company and received fresh Certificate of Incorporation on May 21, 2009.
2011	Launched 'Vara Mahalakshmi' through the first store on July 31, 2011.
2011	Launched the brand 'Mandir' through the first store launched on February 13, 2011
2011	Entered into registered user license agreement for the brand name "Kalamandir" with Jhansi Rani Durga Prasad which was subsequently assigned to I-ONE Investment Private Limited at a consideration of ₹ 25.30 million
2016	SSKL Scheme was approved pursuant to which I-ONE Investments Private Limited was amalgamated into our Company in order to acquire the brand "Kalamandir", amongst other things.
2017	Expansion of brand KLM Fashion Mall to 18 stores with the first store launched in 2017.
2020	Launching of e-commerce platform
2022	Company entered into a Business Assets Transfer Agreement dated April 1, 2022, with Sai Retail India Limited in order to acquire the business assets related to its apparel business.

Source: Company DRHP

Break-up of geographical location (state-wise) of number of stores

States	No. of Showrooms	Aggregate Area (sq. ft.)	Revenue from Operations (₹ million)			
			FY20	FY21	FY22	FY23
Telangana	25	275,503	5,190.93	2,845.31	5,115.90	6,016.55
Andhra Pradesh	16	193,557	3,894.51	2,611.15	4,153.44	4,429.28
Tamil Nadu	4	26,770	907.83	444.84	765.80	1,218.70
Karnataka	9	107,584	1,761.33	870.16	1,258.09	1,802.26
Total	**54**	**603,414**	**11,754.60**	**6,771.47**	**11,293.23**	**13,514.69**

Source: Company Note - Net stores opened calculated as the total no. of store closings during a period, net of the no. of store openings during that same period. Data related to showrooms and areas are as of March 31, 2023.

SSKL's formats

By leveraging its expertise in selling ethnic wear, SSKL has, over the years, expanded its brand portfolio to four formats—Kalamandir, Mandir, Vara Mahalakshmi and KLM FashionMall—each offering a different set of products catering to multiple target segments.

Its ethnic wear and value-fashion merchandise can be purchased through its own and operated stores as well as via its website and other online e-commerce marketplaces. Currently, each of the format stores targets a different market niche, such as premium ethnic fashion, ethnic fashion for middle-income consumers, and value fashion.

Brand	Description
Kalamandir	Kalamandir was established in 2005 with the first store opened in Ameerpet, Hyderabad in Telangana and is categorized as the 'Symbol of the South' for its product offerings, affordability and brand equity. The Kalamandir brand provides contemporary sarees targeting the middle-class and upper-middle class customers.
Vara Mahalakshmi	Vara Mahalakshmi was established in 2012 with the first store opened in Kanchipuram, Tamil Nadu providing customers the famous Kanchipuram silk sarees and other handloom and occasion wear sarees under one roof. The Vara Mahalakshmi brand offers authentic premium silk sarees and each unit (saree) inculcates one of its kind.
Mandir	Mandir was established in 2011 with the first store opened in Banjara Hills, Hyderabad. The Mandir brand is a 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 the customers.
KLM Fashion Mall	KLM Fashion Mall is SSKL's latest store format offering established in 2017 with the first one opened 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 a variety of products for each of the segments including men's wear, women's wear, and kid's wear. They have registered two trademarks, i.e., "Common Man Fashion Mall" and "Pocket Friendly Mall" for KLM Fashion Mall format stores to target the customer segment intended to capture through its value fashion product offerings and increase brand visibility.

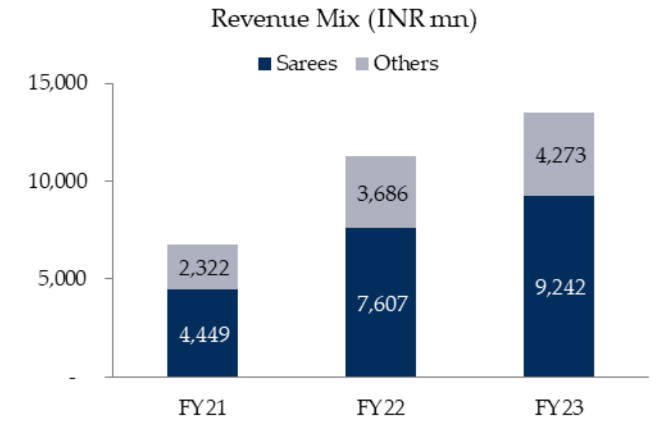
Source: Company RHP, HSIE Research

Format-wise positioning

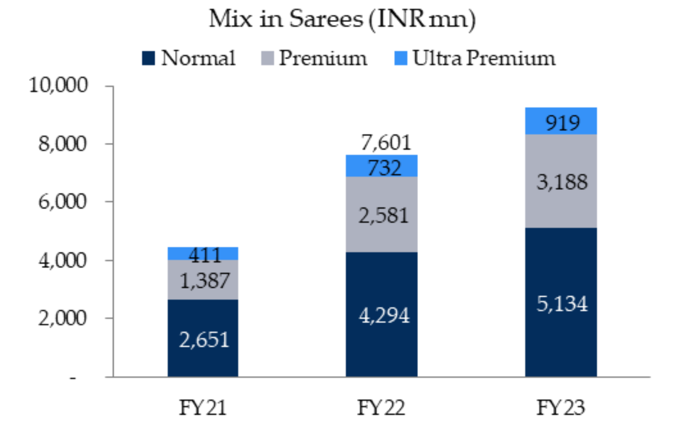
FY23	KMR	MDR	VML	KLM
Year of establishment	2005	2012	2011	2017
No. of stores	11	4	19	20
Retail area (mn sq ft)	0.11	0.01	0.12	0.36
Avg. Price range (INR)	1,000 - 1,00,000	6,000 - 3,50,000	4,000 - 2,50,000	200 - 75,000
Avg. Revenue/ Store	197	114	274	279
Avg. Store set up cost (INR mn)	25	14	39	79

Source: Company RHP, HSIE Research; Note: KMR: Kalamandir, MDR: Mandir, VML: Vara Mahalakshmi, KLM: KLM Fashion Mall

Revenue Mix (Sarees vs other assortment)



Price point-wise revenue mix (%)



Source: Company RHP/Final Prospectus, HSIE Research

Business Mix and Business Details

Channel mix

Revenues by channel (Rs. Mn)	FY20	FY21	FY22	FY23
Physical	11,755	6,71	11,122	13,331
% of Sales	*100*	*99*	*98*	*99*
E – Commerce	0	55	172	184
% of Sales	*0*	*1*	*2*	*1*

Source: Company RHP, HSIE Research

Break-down of store network and area

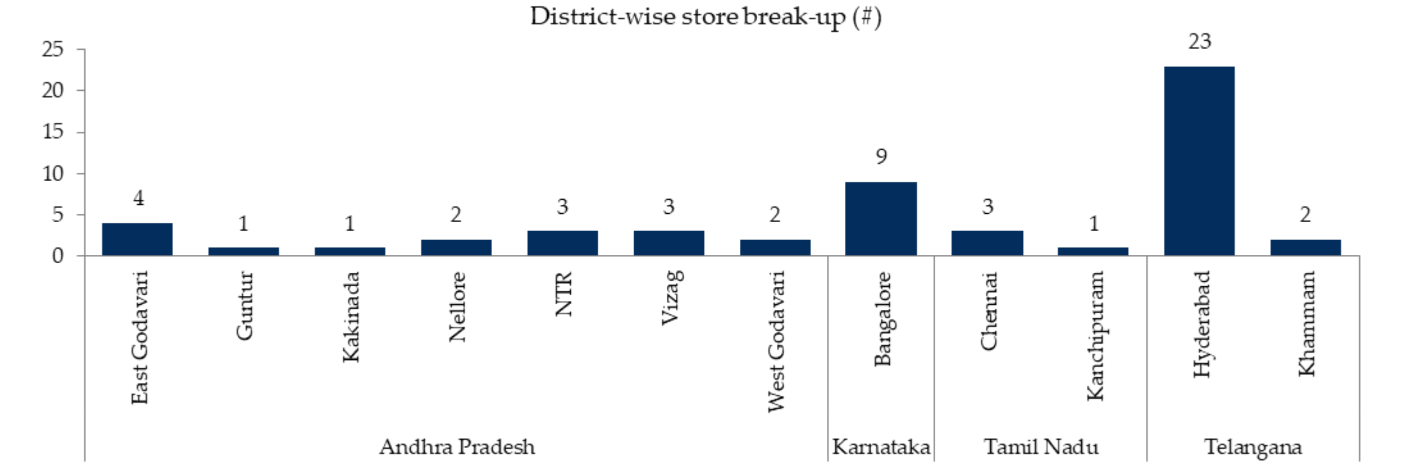
Particulars	FY20	FY21	FY22	FY23
New stores opened during Fiscal	5	0	4	8
Stores closed during Fiscal	0	1	0	0
Stores converted / Format changed during the Fiscal	0	1	2	0
Stores(1)	43	42	46	54
Cities	10	10	12	12
Average Store Area (square feet)	12,121	12,171	11,974	11,174
Metrics per Square Feet (INR)				
- Revenue from operations	22,553	13,247	20,502	22,397
- Revenue from operations for Mature Stores	24,227	13,058	20,210	22,850
Revenue Metrics per Store (INR mn)				
- Revenue from operations	273.36	161.23	245.50	250.27
- Revenue from operations for Mature Stores	282.30	161.85	252.64	273.61
Average Capital Expenditure per Store (INR mn)	48.58	50.43	51.43	51.72

Source: Company RHP, HSIE Research

SSKL: A smart scaler

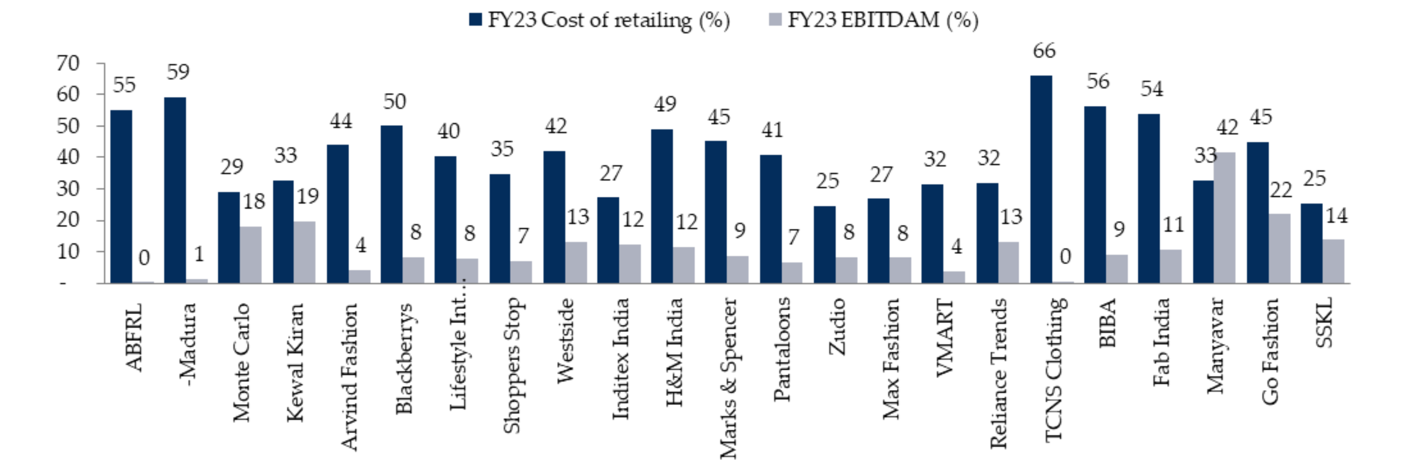
- **SSKL—a smart scaler:** Ever since commencing operations in FY05, SSKL has been a disciplined scaler. It has an extremely concentrated cluster-based approach to expansion. Of the 150+ districts down south, SSKL is only present in 12 districts. In fact, of the five Southern states, it is yet to have a presence in Kerala and it currently only has a small presence in Tamil Nadu. Even in Karnataka, the company is only present in one district (Bangalore), and in Telangana, the lion's share of the stores is in one district—Hyderabad.
- Such a dense presence typically aids in improving brand recall within respective catchments, ergo aids sales density. It also helps keep the cost of retailing extremely tight. Note: SSKL enjoys amongst the highest revenue/sq. ft (~INR22k/sq. ft) and among the lowest cost of retailing within retail (~25% of sales).

Runway to scale even within the five southern states remains high as SSKL currently is present only in 12/150+ southern districts



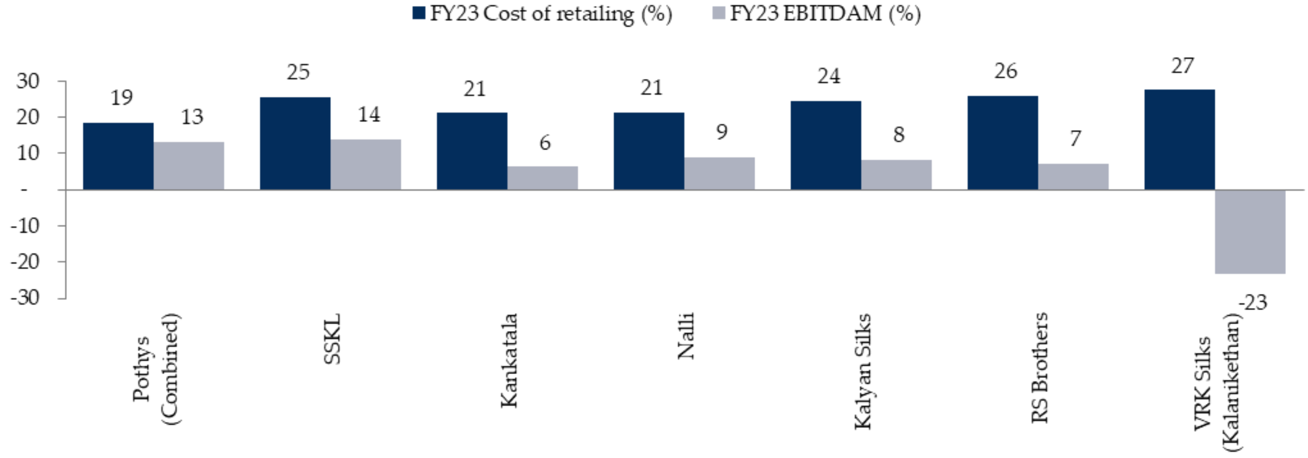
Source: Company, HSIE Research

High store; ergo sales density also translates into lower cost of retailing and healthy EBITDAM despite lower gross margins. SSKL has among the lowest cost of retailing and among the healthiest EBITDAM within apparel retail



Source: Company, HSIE Research

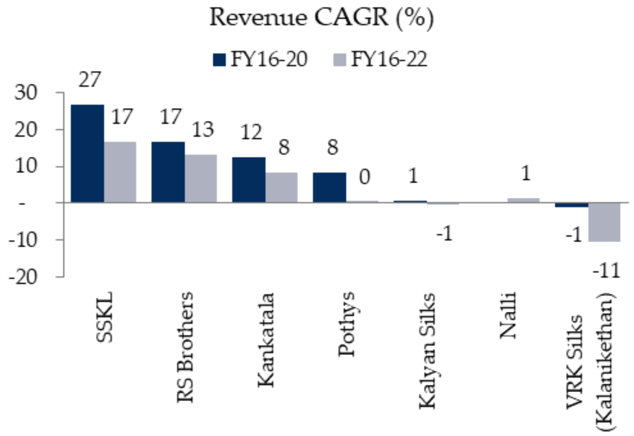
Within Saree companies, SSKL, has (along with Pothys) balanced costs and profitability better than most

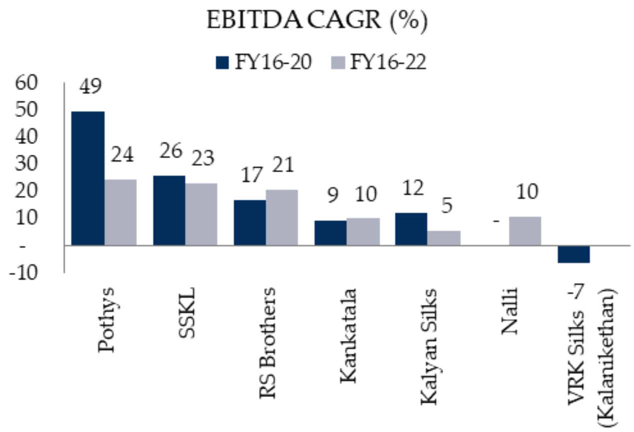


Source: Company RHP, HSIE Research, Note: For Pothys we've combined FY22 financials of its entities to arrive at cost of retailing and EBITDAM

- SSKL has smartly pivoted focus from one format to the other in search of balance between scale and unit economics. The company pivoted to value fashion in search of volumes by launching KLM Fashion Mall (KLM) in FY17. Hence, this led to it nearly doubling scale over FY17-20. The focus has now shifted to expanding the more unit-economics accretive format Vara Mahalakshmi (VML).
- Its ability to straddle consumer price points has led to it attracting a wider consumer cohort viz-a-vis peers. Consequently, SSKL has outpaced the broader organized saree pack in terms of market share gains over FY16-22 while improving margins along the way. Over FY16-22, SSKL grew revenue/EBITDA at 17/24% respectively.

Over FY16-22, SSKL has been among the fastest within immediate peer set and has consistently improved margins along the way (courtesy premiumization within formats and scale-led benefits)

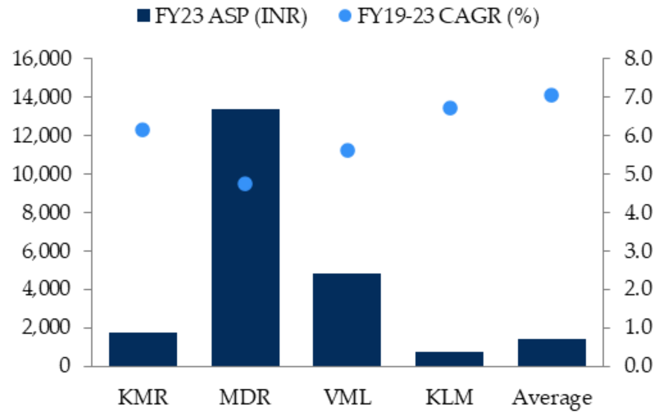


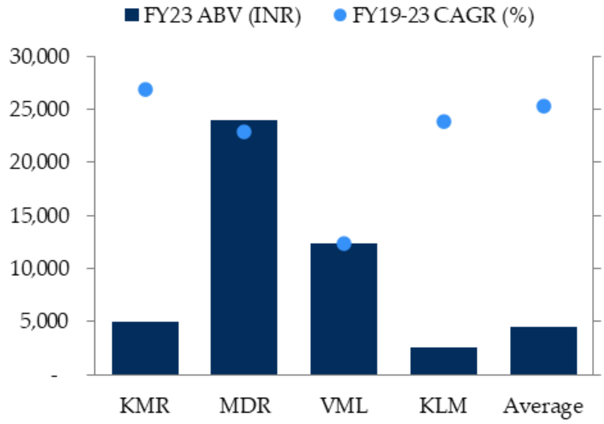


Source: Company RHP, HSIE Research

- The company has a consistent history of premiumising its portfolio as can be seen in ASP/ABV growth (4-7% CAGR) across formats over FY19-23.

Across all four formats, SSKL has consistently managed to premiumize its offering (4-7% CAGR) over FY19-23





Source: Company RHP, HSIE Research

Sourcing, logistics, and warehousing

SSKL is primarily a retail-focused company, which directly procures all of its products from master weavers for its sarees and third-party (3P) manufacturers for other products. Their arrangements with master weavers and other 3P manufacturers are on a purchase order, non-exclusive basis, to comply with the quality standards and other requirements such as time and place of delivery specified by them.

The company has sourced products from an aggregate of 4,832 master weavers, weavers and vendors from across India over the last three years. Once it has analysed and allocated its sourcing requirements, it emphasizes interaction among its purchase team, to review its master weavers and 3P manufacturers' performance and production status. As of July 31, 2023, the company had 98 employees in its purchase team. It also regularly visits master weavers and third-party manufacturers to ensure trade efficiency. It manages its inventory and logistics as well as warehousing for all its channels, from its four warehouses in Karnataka, Andhra Pradesh, Telangana and Tamil Nadu with an aggregate area of approximately 164,000 square feet as of July 31, 2023. All products are barcoded, which ensures systematic movement of its inventory.

Product design

SSKL focuses on creating innovative designs with an emphasis on quality to offer new and varied products to its customers throughout the year. It does not design any of its products in-house. They outsource their design features and leverage the design infrastructure that is available with third-party manufacturers. From time to time, it interacts with independent designers to design its products which are then subsequently sent to the master weavers and third-party manufacturers.

The design process involves detailed analysis and research on prevailing fashion trends and consumer tastes and preferences, which the company collects through various system-driven processes that include data analysis, market surveys and feedback received from their artisans and vendors, as well as conversations between sales associates and customers.

Marketing and promotion

They have a focused marketing strategy and engage popular south Indian actors as their brand ambassadors. Their sales and marketing strategies aim to increase brand awareness, acquire new customers, and strengthen and reinforce their brand image. In FY20, FY21, FY22 and FY23, their advertisement expenses were INR298/INR114/INR492/INR622mn respectively and accounted for 2.5%, 1.7%, 4.3% and 4.6% of sales respectively. The company considers its products to be high quality, having been created from select materials and conceptualised by experienced artisans. As a result, they do not typically run any end-of-season discount sales etc, which, in their opinion, reduces the value of the brand in the long run.

SSKL's Tamil Nadu foray holds promise

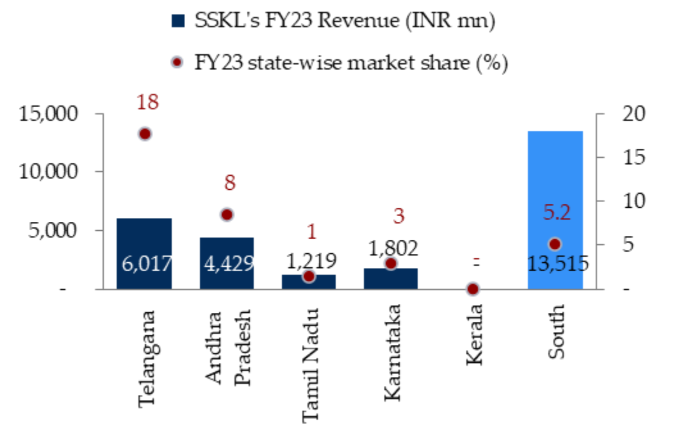
- **SSKL's foray into Tamil Nadu (TN) via VML—a positive catalyst:** SSKL intends to use most of its IPO proceeds (INR5.6bn) to expand its presence in TN via VML. Vara Mahalakshmi (VML) is SSKL's most lucrative store format in terms of unit economics. It sports a revenue/sq. ft (~45k/sq. ft) double that of SSKL's portfolio average (~22k/sq. ft) and EBITDA/sq. ft between 3-4x that of SSKL's portfolio average. Post-tax RoCE of the format is estimated at nearly double that of SSKL's consolidated ROCE of 18.8% (FY23).

- Even within VML, Tamil Nadu (TN) stores fire at a higher than format average (INR45k+) by an estimated factor of 1.2-1.5x (as per channel checks). This can be explained by the following two points. (1) The higher population density of the state (TN: ~280 women/km² vs AP + Telangana's ~150 women/km²). Note: the variance is even starker if one juxtaposes data for key saree catchments/districts of the respective states (this translates into higher footfalls or bills per store in TN stores). (2) Higher affinity for a saree purchase in TN vs other southern states (per channel checks), which translates into higher purchase frequency. These anchors translate into higher sales densities in TN vs other southern states, which in turn reflects in superior unit economics.

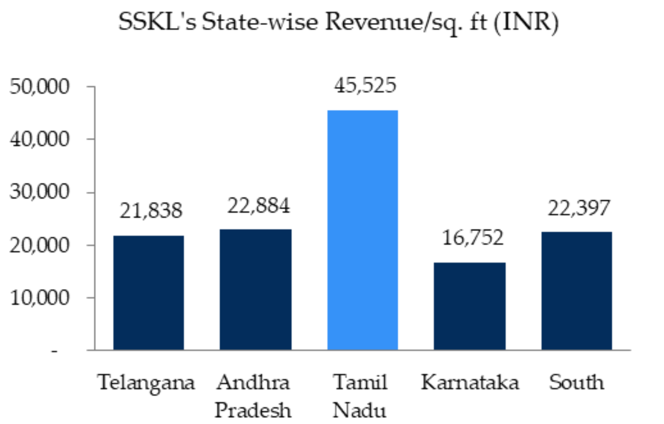
- Hence, management's decision to predominantly focus its expansion drive on Tamil Nadu (and that too via the unit economics-accretive VML format) seems a logical one. As highlighted earlier, **<u>25 out of 30 stores earmarked for expansion will be VML stores and in TN. This should along with productively-led growth also translate into a rising return profile.</u>**

- Currently, SSKL has a mere 1% market share within Tamil Nadu; however, the unit economics of these TN stores is meaningfully higher than the company average.

TN opportunity is massive (SSKL has a mere 1% share in TN)



….SSKL's TN stores' sales density is >2x that of company average

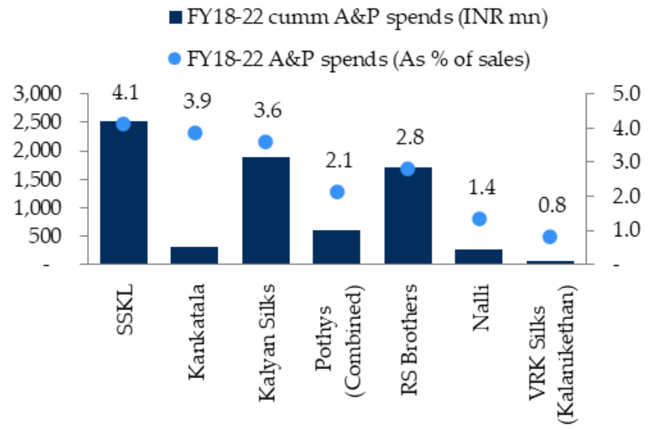


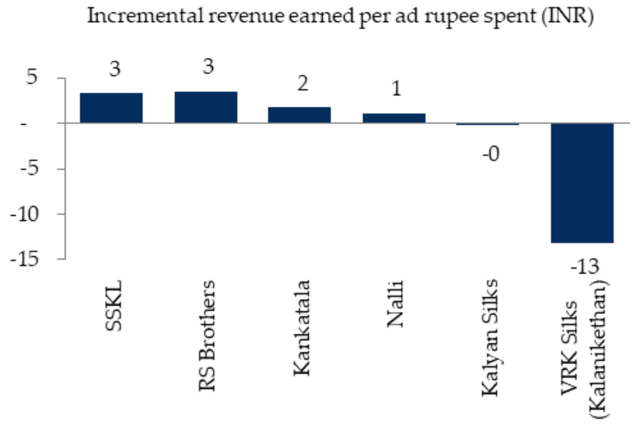
Source: Company RHP, HSIE Research, Assigned

- **SSKL's dense expansion strategy leads to better effectiveness of brand spends:** Over FY18-23, SSKL has cumulatively spent ~INR2.5bn (~4% of sales) and has consistently been in the top quartile of ad spenders (both in absolute as well as % terms). <u>More importantly, it is one of the few saree/ethnic wear companies whose brand investments have earned healthy revenue growth (~14%). Apart from SSKL, only Pothys and RS Brothers have managed to achieve this.</u> Others have had very little to show in terms of volume/sales growth (in relation to the ad dollars spent).
- We suspect one of the reasons why SSKL enjoys a higher return on ad spends is that ad rupees are targeted/concentrated towards a relatively more homogenous

consumer cohort in terms of culture/purchasing behaviour (given its dense network) coupled with better price straddling (via its four formats). The latter helps it widen the target audience within the homogenous consumer set. The company engages popular south Indian actors as brand ambassadors for their brand-building exercise.

SSKL's return on ad spends (along with RS Brothers and Pothys Group) are superior vis-à-vis other Saree/ethnic wear peers





Source: Company RHP, HSIE Research; Note: For SSKL, period used is FY18-23; For Pothys, only FY23 A&P spends as % of sales computed as LTL financials unavailable for FY18-22

- **SSKL intends to improve sourcing margins from weavers by bettering its terms of trade:** SSKL has earmarked INR 2.8bn (of the INR 5.6 bn net proceeds) for incremental working capital investments (expansion-led). A part of this will be used to offer advance payments to suppliers/early payments to vendors instead of additional sourcing margins. This will be expected to help SSKL earn better gross margins; ergo better EBITDAM. Management expected to improve EBITDAM by 400-500 bps by FY26 (which translates to 17.5-19.5% EBITDAM by FY25 on a pre-IND AS basis).
- Given SSKL's expansion focus on VML stores (especially in TN), inventory turns are likely to be faster (given the higher sales densities enjoyed in VML). These gains are likely to be used to reduce payable days. So, WC needs may remain broadly the same (in days). The quality of WC management is likely to improve meaningfully. Note: we've (HSIE) built a more gradual schedule of improvement/paying down of payables to build some margin of safety.

WC expectations (in days) – Company vs HSIE expectations

Particular (in days)	Company's Projection				HSIE Estimates			
	FY23	FY24	FY25	FY26	FY23	FY24	FY25	FY26
Inventory	186	165	145	119	186	180	165	155
Trade Receivables	1	2	1	1	1	1	1	1
Trade Payables	62	37	16	6	62	50	40	30
Total	**125**	**130**	**130**	**114**	**125**	**131**	**126**	**126**

Company RHP, HSIE Research

Peer-wise H1FY24 Performance

- **SSKL's H1 performance/recovery from *adhik maas* tracking better than most:** As can be seen in the below table, the SSKL's recovery from the *adhik maas* impact in H1 has been better than peers. The closest comparison for SSKL within the ethnic wear pack would be ones which have a high skew of wedding-led sales (Vedant Fashion). Even, if one compares with Vedant Fashion, SSKL H1 performance has been better.

- SSKL's H1 revenue declined a mere -3% for H1 despite a dismal Q1 (-10%) growth. Gross/EBITDAM margins continued to improve as a consequence of (1) Mix improvement at the company level and within respective formats too and (2) sourcing margin gains. On the other hand, Manyavar (Vedant Fashion) had tough comparables to contend with. Hence, the normalisation trend downwards was sharper (-7% YoY). EBITDAM for the latter contracted 323 bps YoY to 45.5%.

- On the inventory and working capital management too, peers have deteriorated while SSKL has improved.

H1FY24 peer Comparison (among ethnic wear players)

INR mn	SSKL			TCNS Clo			Vedant Fashion			Go Fashion		
	H1 FY23	**H1 FY24**	**Growth (YoY)**	**H1 FY23**	**H1 FY24**	**Growth (YoY)**	**H1 FY23**	**H1 FY24**	**Growth (YoY)**	**H1 FY23**	**H1 FY24**	**Growth (YoY)**
Revenue	6,489	6,315	-3	6,269	4,697	-25	5,719	5,299	-7	3,309	3,790	15
COGS	3,996	3,728		2,003	1,188		1,382	1,448		1,111	1,292	
Gross Profit	2,493	2,587		4,266	3,510		4,337	3,852		2,199	2,498	
Gross Margin (%)	38.4	41.0	*255 bps*	68.1	74.7	*666 bps*	75.8	72.7	*(316 bps)*	66.4	65.9	*(53 bps)*
EBITDA	968	996	3	774	-819	-206	2,785	2,410	-13	1,024	1,208	18
EBITDAM (%)	14.9	15.8	*85 bps*	12.4	-17.4	*(2978 bps)*	48.7	45.5	*(323 bps)*	31.0	31.9	*93 bps*
PBT	616	541	-12	127	-2,265	-1,890	2,284	1,886	-17	567	606	7
PBTM (%)	9.5	8.6	*(92 bps)*	2.0	-48.2	*(5023 bps)*	39.9	35.6	*(436 bps)*	17.1	16.0	*(115 bps)*
PAT	460	401	-13	101	-1,733	-1,821	1,699	1,407	-17	441	463	5
PATM (%)	7.1	6.4	*(73 bps)*	1.6	-36.9	*(3850 bps)*	29.7	26.5	*(316 bps)*	13.3	12.2	*(110 bps)*
Inventory Days		197		129	207		48	45		118	115	
Receivable Days		1		64	109		122	140		41	38	
Payable Days		63		62	118		25	20		17	13	
Cash Conversion (Days)		**135**		**131**	**199**		**145**	**205**		**142**	**140**	
Net Debt/Equity (x)		-0.35		-0.06	0.16		-0.45	-0.48		-0.27	-0.30	

Company RHP, HSIE Research

Key assumptions

Key Assumptions	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Revenue (INR mn)	**11,756**	**6,788**	**11,361**	**13,515**	**14,521**	**18,494**	**23,025**
Growth (YoY, %)		*-42*	*67*	*19*	*7*	*27*	*24*
EBITDA (INR mn)	1,188	749	1,420	2,125	2,298	3,086	4,157
EBITDAM (%)	10.1	11.0	12.5	15.7	15.8	16.7	18.1
Pre-IND AS 116 EBITDA (INR mn)	1,088	624	1,261	1,858	1,986	2,707	3,741
Pre-IND AS 116 EBITDAM (%)	9.3	9.2	11.1	13.7	13.7	14.6	16.2
Revenue/sq. ft (INR)	23,650	13,433	20,191	22,092	21,913	23,657	25,952
YoY (%)		*-43*	*50*	*9*	*-1*	*8*	*10*
EBITDA/sq. ft (INR)	2,190	1,248	2,289	3,078	3,038	3,506	4,265
YoY (%)		*-43*	*83*	*35*	*-1*	*15*	*22*
Store (#)							
KMR	7	7	8	11	11	16	18
MDR	3	3	3	4	4	4	4
VML	14	15	17	19	26	39	49
KLM	16	16	18	20	20	20	20
Total	**40**	**41**	**46**	**54**	**61**	**79**	**91**
Area ('000 sq. ft)							
KMR	97	97	102	113	113	131	138
MDR	8	8	10	13	13	13	13
VML	86	89	102	116	166	231	281
KLM	306	306	337	361	361	397	445
Total	**497**	**500**	**551**	**603**	**654**	**772**	**877**
Revenue Mix (%)							
KMR	18	17	16	17	16	14	12
MDR	2	3	4	3	3	3	2
VML	36	39	40	39	44	52	57
KLM	43	40	39	39	36	31	28
E-Comm	-	1	2	1	1	1	1

Source: Company, HSIE Research

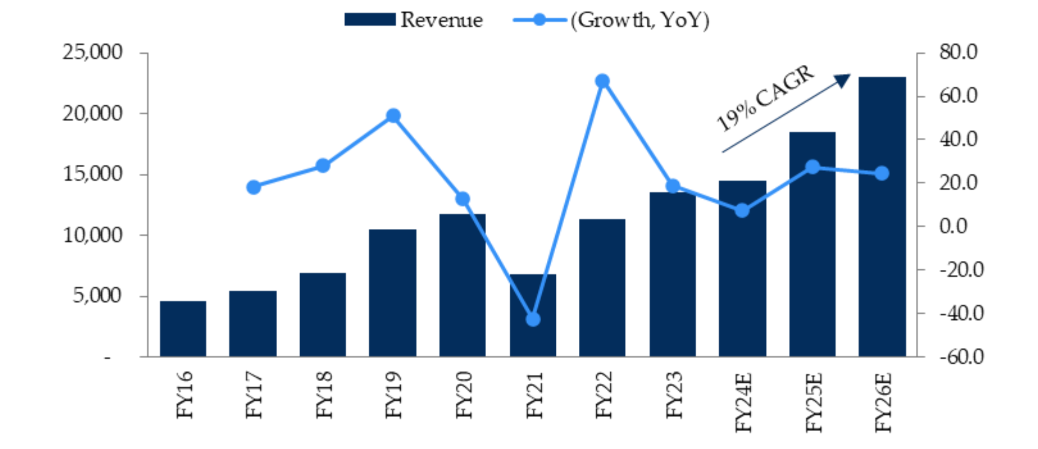
Margin of safety at multiple levels

Financial Analysis:

Revenue—SSKL has delivered ~17% revenue CAGR over FY16-23. While most of the growth is expansion-led, SSSG has hovered at 2-4% typically. Interestingly, an SSSG of ~3% is sufficient to cover store-level cost inflation as store-level costs are estimated to account for only 15% of sales while central costs constitute the remaining 10% of sales.

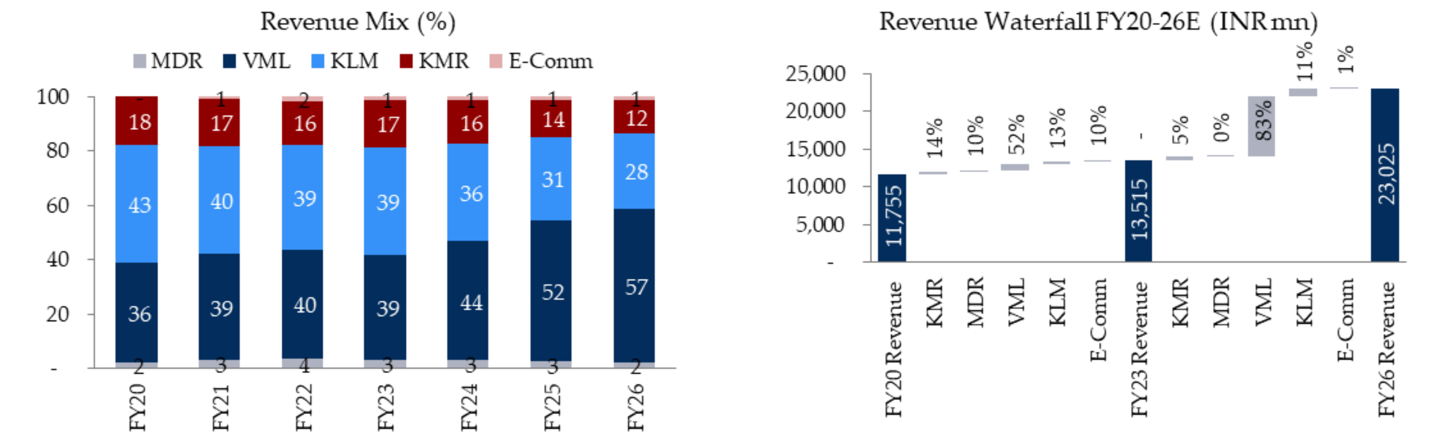
Note: VML format (superior unit economics vis-à-vis other formats) will be the vehicle for expansion (of the 30 stores to be funded via IPO proceeds, 25 stores are earmarked for VML in Tamil Nadu). We've built in 30/44 VML/total store additions for FY23-26 (IPO proceeds + internal accrual funded) and expect VML to add 80%+ of incremental sales over FY23-26 (60% of incremental area addition). Overall, for SSKL, we build in 19% revenue CAGR for FY23-26.

SSKL has clocked 17% revenue CAGR over FY16-23; growth momentum to increase as it benefits from expansion proceeds as well as improving skew of VML



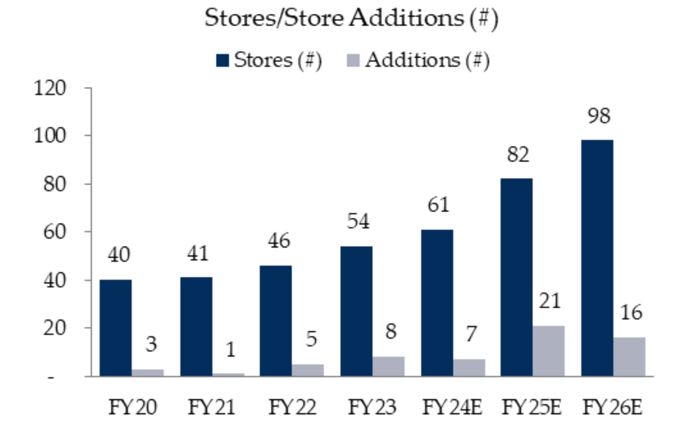
Source: Company, HSIE Research

VML to be expansion vehicle; to add 80%+ of incremental sales over FY23-26 (added 52% of incremental sales over FY20-23

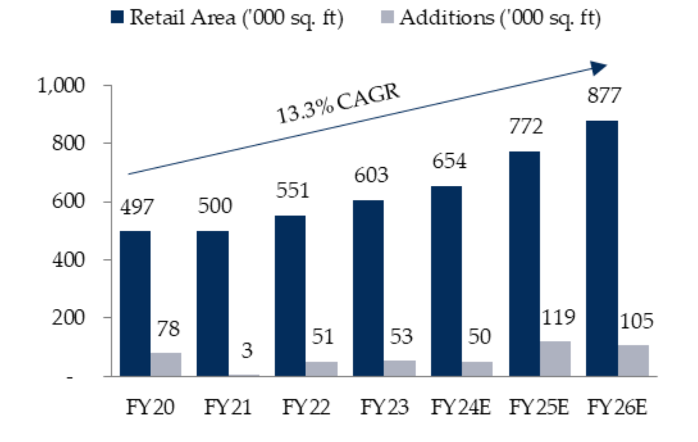


Source: Company, HSIE Research

SSKL intends to nearly double store count and add retail space at ~13% CAGR over FY23-26E with help of IPO proceeds



Source: Company, HSIE Research

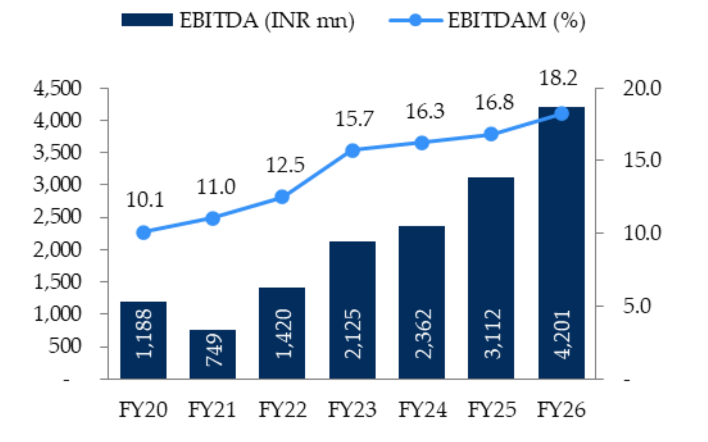


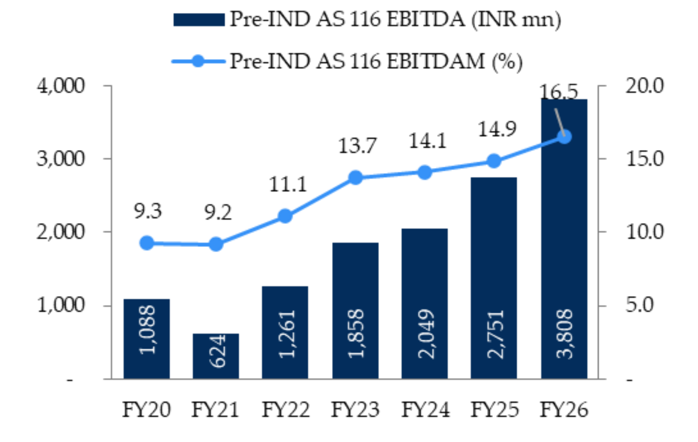
Source: Company, HSIE Research

EBITDA margin—EBITDA/Pre-IND-AS EBITDA margin expanded by 562/449 bps over FY20-23 as the company continued to (1) premiumise its offerings, (2) take consistent price hikes, and (3) have an increased skew of higher EBITDAM format VML (skew increased from 36% of sales to 39% of sales). Note: GM increased from 31.5% to 39.1%. over FY20-23.

Given that the predominant vehicle for expansion here on is VML (higher EBITDAM format courtesy higher sales density and lower A&P and business promotion needs), the natural rise in skew should aid EBITDAM expansion over FY23-26. SSKL also intends to work on improving sourcing margins, ergo gross margins, by offering better terms of trade to its weaver network. This coupled with its consistent premiumisation drive should aid GMs, which should trickle down at the EBITDAM level too. We build in a 267/280 bps GM/Pre-IND AS EBITDAM expansion over FY23-26, courtesy the above-mentioned levers. Note: SSKL has guided for a 400-500bps EBITDAM expansion over FY23-26. However, we prefer to keep our margin delivery expectations a tad more conservative and leave room for an execution surprise.

Higher sourcing margins from weavers, premiumisation and rising VML skew to aid EBITDAM expansion

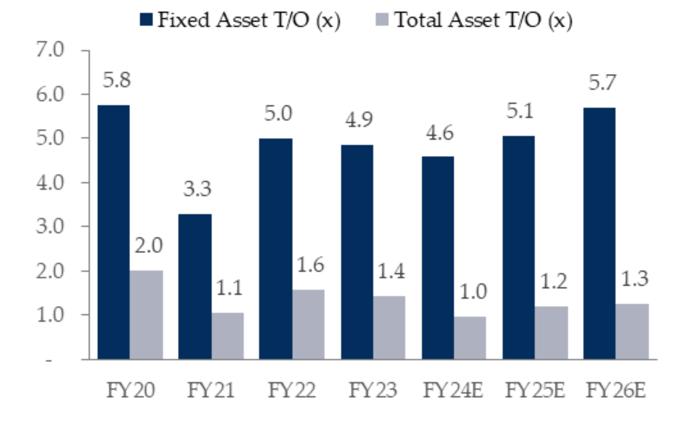




Source: Company, HSIE Research

Capital efficiency: On the capital expenditure side, we build in gradual improvement in terms of fixed asset turnover, given the rising skew of VML in revenues. One can also expect inventory turns to improve as assortment turns faster in TN-based VML stores. That said, we expect most of the inventory efficiency gains to be ploughed back into the business by way of advance payments to the weaver network. Hence, we build no gains at the net working capital level—another layer of margin of safety vis-à-vis company expectations (SSKL expected an improvement of ~10-11 days over FY23-26 in WC days).

Building in stable fixed asset turns over FY23-26



Source: Company, HSIE Research

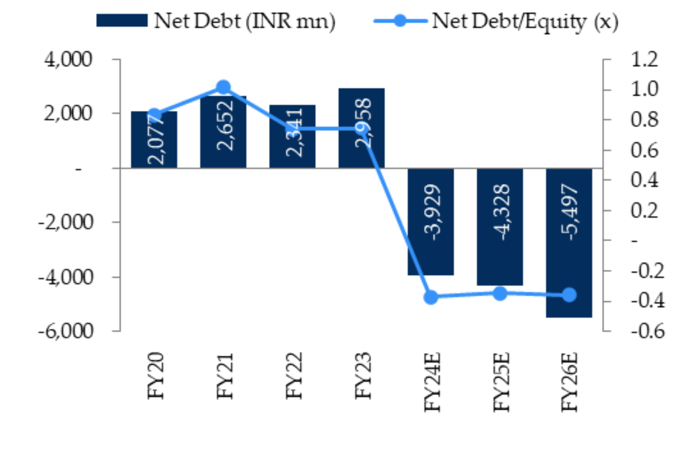
While WC efficiency to remain steady, quality of WC management to improve as inventory days reduce with higher TN exposure

In Days	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Inventory	162	276	210	186	180	165	155
Receivables	1	1	1	1	1	1	1
Payables	76	93	91	62	50	40	30
Core CC cycle	**86**	**185**	**120**	**125**	**131**	**126**	**126**

Source: Company, HSIE Research

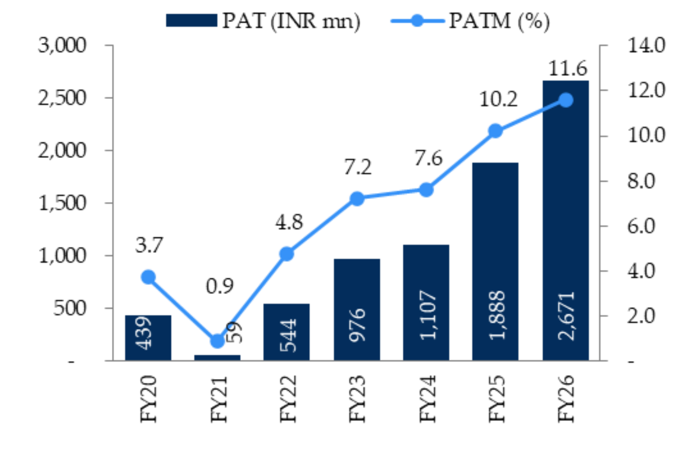
Net profit: Improvement in net profit (built-in 40% CAGR over FY23-26) is a consequence of GM gains, steady cost of retailing and reduction of INR120-150mn in interest outgo due to paring down of debt from IPO proceeds + internal accruals. We build INR1.89/2.69bn PAT in FY25/26 respectively.

Part of the proceeds to be used to pare down debt



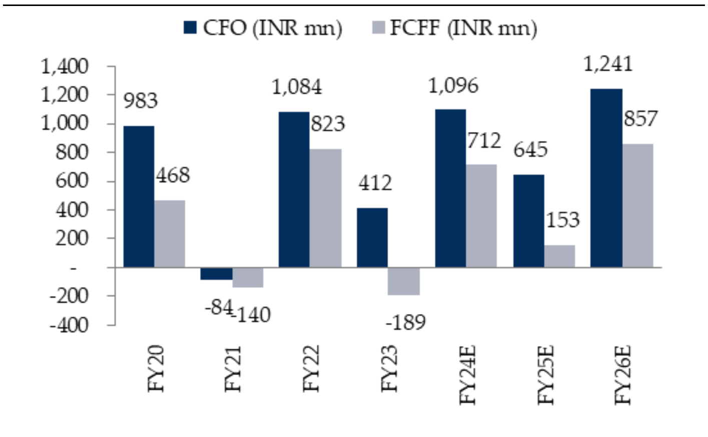
Source: Company, HSIE Research

Expect 40% PAT CAGR over FY23-26



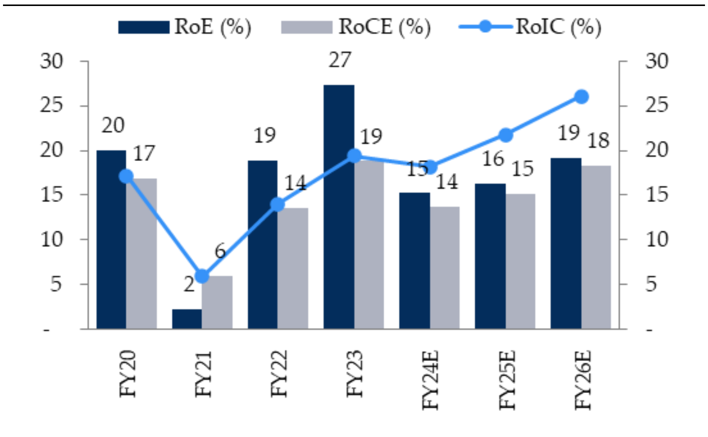
Source: Company, HSIE Research

SSKL's free cash flow profile



Source: Company, HSIE Research

…Building in steady ROCE profile over FY23-26



Source: Company, HSIE Research

Valuation

- Our DCF-based target price of INR 385/sh for SSKL (implying 17x Sep-25 EV/EBITDA and 26x Sep-25 P/E) assumes: (1) FY24-32 revenue CAGR: 15%; (2) Avg. EBITDA margins of 16.8% over FY24-32E; (3) FY24-32 FCFF CAGR: 26%; (4) WACC: 10.8%; (5) terminal growth: 5%, 9-year cumulative FCF/PAT conversion of ~70% over FY25-32E.

DCF valuation (INR mn):

DCF (INR m)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Revenue (INR m)	18,494	23,025	26,298	29,234	32,205	35,535	39,378	43,408
YoY	27%	24%	14%	11%	10%	10%	11%	10%
EBIT*(1-t)	2,112	2,855	3,373	3,886	4,446	5,081	5,826	6,620
Depreciation	333	348	393	432	470	512	561	626
Capex	-492	-384	-575	-516	-522	-585	-675	-901
Changes in WC (Winv)	-1,442	-1,644	-1,188	-986	-982	-1,093	-1,255	-1,419
FCFF	**512**	**1,174**	**2,002**	**2,816**	**3,412**	**3,915**	**4,456**	**4,926**
YoY (%)	*(36)*	*129*	*71*	*41*	*21*	*15*	*14*	*11*
EOP date	**Mar-25**	**Mar-26**	**Mar-27**	**Mar-28**	**Mar-29**	**Mar-30**	**Mar-31**	**Mar-32**
Years to DCF date	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5
PV (FCFF)	**487**	**1,006**	**1,549**	**1,966**	**2,149**	**2,226**	**2,286**	**2,280**
Terminal Value								**88,998**

DCF Date		Sep-24	
Kd	10.0	Sep-25 Implied EV/Sales (x)	2.7
Kd*(1-t)	7.5	Sep-25 Implied EV/EBITDA (x)	16.8
Ke	11.0	Sep-25 Implied P/E (x)	25.9
Net Debt (Mar-24E)	(3,929)	Terminal growth rate (%)	5.0
Debt/Equity	0.2	WACC	10.8
PV-Explicit Period	13,949	Terminal FCF multiple (x)	19.1
PV-Terminal Value	41,192	No. of shares (mn)	153
Enterprise Value	55,141	CMP	280
Equity Value (INR m)	59,070		
Equity value per share (INR)	**385**	**Upside/(Downside)**	**37.6%**

		WACC (%)				
		9.8	**10.3**	**10.8**	**11.3**	**11.8**
Terminal growth rate (%)	**4.0**	405	372	344	319	298
	4.5	434	395	363	335	311
	5.0	468	423	**385**	354	327
	5.5	510	456	412	376	345
	6.0	563	497	444	401	366

Company profile

- Launched in FY05, Sai Silks (Kalamandir) Ltd (SSKL) is one of the largest apparel retailers in south India offering products across ethnic wear (sarees) and value fashion. The retailer houses four popular brands—Kalamandir, Kancheepuram Vara Mahalakshmi Silks, Mandir and KLM Fashion Mall—straddling multiple price points. Their cluster-based presence (spanning 54 stores; 6,03,414 sq. ft) across the four southern states (Telangana, Karnataka, Andhra Pradesh and Tamil Nadu) ensures superior operating efficiencies/unit economics (Source: Technopak report).
- The company's ethnic wear and value-fashion products are available through its own and operated stores as well as through e-commerce channels comprising its website and other online e-commerce marketplaces. Currently, each of the format stores cater to a different segment of the market, i.e., premium ethnic fashion, ethnic fashion for middle income and value fashion.

Key personnel

Name	Designation	Description
Mohana Durga Rao Chalavadi	Senior Vice President (Operations)	He has over 12 years of experience in retail. He was previously associated with JPMorgan Chase Bank, Sophos, Inc. and Endforce. He holds a bachelor's degree in electronics and communication engineering and a master's degree in electrical engineering.
Chakradhar Boorlagadda	Head of Sourcing & Strategy	He has over 15 years of experience in retail business. He holds a bachelor's degree in commerce and a master's degree in business administration.
Venkata Rajesh Annam	Senior VP (Business Operations)	He has over 14 years of experience in retail business. He holds a bachelor's degree in commerce from Nagarjuna University.
Rachamadugu Balaji Bharadwaj	Senior VP (IT & E-Commerce	He has been associated with the company since January 1, 2018 and is currently responsible for e-commerce development activity and R&D for new project development. He holds a bachelor's degree in computer science and engineering and a master's degree in business administration.
Konduri Venkata Lakshmi Narasimha Sarma	Chief Financial Officer	He has over 34 years of experience in finance. He was previously associated with CCL Products (India) Limited, Penna Cement Industries Limited, Aditya Spinners Limited and in the Veterinary & Animal Husbandry Department, Government of Telangana.
Matte Koti Bhaskara Teja	Company Secretary and Compliance Officer	He has approximately seven years of experience in secretarial work. He was previously associated with Ambica Agarbathies Aroma & Industries Limited, Athena Global Technologies Limited and Vama Industries Limited.

Source: Company, HSIE Research

Key Risks

Risks	Description
Highly concentrated in a single product category (saree).	Business is currently highly concentrated on a single product category, i.e., women's ethnic sarees product. Company's sales of women's sarees are dependent on a number of factors, and may decline as a result of increased competition, pricing pressures or fluctuations in the demand for or supply of our products and other factors outside our control. In particular, their business is characterized by to rapidly-changing customer preferences. A decline in demand for their products or a misjudgment on their part could lead to increased market acceptance of their competitors' products or may result in the substitution of their products in the market, which could lead to them having lower sales and excess inventory, which may necessitate company to sell this excess inventories at cost price / lower than cost price
Management of high SKUs	Saree retailing entails managing extremely high number of SKUs in order to provide variety to the end consumer. A slip-up in SKU management (saree is a high SKU/store product) could impact working capital severely.
Risks associated with expansion of the current business	Current locations of the stores may become unattractive, and suitable new locations may not be available for a reasonable price or acceptable terms, if at all. In addition, they are exposed to all of the risks associated with leasing real estate and any adverse developments could materially affect their business, results of operations and financial condition.

Source: Company, HSIE

Income Statement

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26
Net Revenues	**11,756**	**6,788**	**11,361**	**13,515**	**14,521**	**18,494**	**23,025**
Growth (%)	4.1	(42.3)	67.4	19.0	7.4	27.4	24.5
Material Expenses	8,048	4,206	7,121	8,226	8,680	10,895	13,400
Employee Expense	1,244	968	1,174	1,408	1,597	2,090	2,556
A&P Expense	298	114	492	622	625	796	945
Rent Expenses	200	133	213	233	251	319	386
Other Expenses	778	618	942	899	962	1,281	1,503
EBITDA	**1,188**	**749**	**1,420**	**2,125**	**2,406**	**3,112**	**4,235**
EBITDA Growth (%)	**(10.7)**	**(36.9)**	**89.5**	**49.7**	**13.2**	**29.4**	**36.1**
EBITDA Margin (%)	**10.1**	**11.0**	**12.5**	**15.7**	**16.6**	**16.8**	**18.4**
Pre-IND AS EBITDA	**1,088**	**624**	**1,261**	**1,858**	**2,093**	**2,751**	**3,843**
Pre-IND-AS EBITDAM (%)	**9.3**	**9.2**	**11.1**	**13.7**	**14.4**	**14.9**	**16.7**
Depreciation	289	326	342	410	535	600	637
EBIT	**900**	**423**	**1,078**	**1,715**	**1,871**	**2,512**	**3,598**
Other Income (Including EO Items)	32	26	41	75	173	407	346
Interest	368	366	372	454	520	394	349
PBT	**563**	**83**	**747**	**1,336**	**1,524**	**2,526**	**3,595**
Total Tax	125	24	203	360	384	636	905
PAT before share of associate earnings	**439**	**59**	**544**	**976**	**1,141**	**1,890**	**2,690**
Share of associate earnings	-	-	-	-	-	-	-
Reported PAT	**439**	**59**	**544**	**976**	**1,141**	**1,890**	**2,690**
Exceptional Gain/(loss)	-	-	-	-	-	-	-
Adjusted PAT	**439**	**59**	**544**	**976**	**1,141**	**1,890**	**2,690**
APAT Growth (%)	**(23.9)**	**(86.5)**	**816.5**	**79.4**	**16.9**	**65.7**	**42.3**
Adjusted EPS (Rs)	**2.9**	**0.4**	**3.5**	**6.4**	**7.4**	**12.3**	**17.5**
EPS Growth (%)	**(40.3)**	**(86.5)**	**816.5**	**79.4**	**16.9**	**65.7**	**42.3**

Source: Company, HSIE Research

Balance Sheet

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26
SOURCES OF FUNDS							
Share Capital - Equity	420	426	426	241	307	307	307
Reserves	2,073	2,190	2,734	3,733	10,297	12,275	15,072
Total Shareholders Funds	**2,493**	**2,616**	**3,160**	**3,973**	**10,604**	**12,582**	**15,379**
Long Term Debt	349	646	540	654	304	204	104
Short Term Debt	1,971	2,265	2,288	2,801	2,151	651	651
Total Debt	**2,319**	**2,910**	**2,828**	**3,455**	**2,455**	**855**	**755**
Lease Liabilities	**855**	**782**	**1,098**	**1,804**	**1,804**	**1,804**	**1,804**
Net Deferred Taxes	**140**	**140**	**121**	**115**	**115**	**115**	**115**
Other Non-current Liabilities & Provns	**5**	**6**	**11**	**27**	**27**	**27**	**27**
TOTAL SOURCES OF FUNDS	**5,813**	**6,455**	**7,218**	**9,374**	**15,005**	**15,383**	**18,080**
APPLICATION OF FUNDS							
Net Block	1,791	1,653	1,698	2,047	2,143	2,301	2,338
CWIP	-	21	-	-	-	-	-
RoU Assets	844	712	993	1,693	757	734	662
Other Non-current Assets	409	411	418	417	417	417	417
Total Non-current Assets	**3,043**	**2,797**	**3,110**	**4,157**	**3,317**	**3,453**	**3,417**
Inventories	5,214	5,141	6,531	6,897	7,172	8,375	9,796
Debtors	17	24	22	29	31	39	49
Other Current Assets	231	214	417	624	591	651	811
Cash & Equivalents	**242**	**258**	**486**	**497**	**6,418**	**5,471**	**6,622**
Total Current Assets	**5,705**	**5,637**	**7,456**	**8,047**	**14,212**	**14,536**	**17,277**
Creditors	2,459	1,729	2,821	2,300	1,994	2,033	1,900
Other Current Liabilities & Provns	477	251	528	530	530	573	714
Total Current Liabilities	**2,936**	**1,980**	**3,349**	**2,830**	**2,524**	**2,606**	**2,614**
Net Current Assets	2,769	3,657	4,108	5,217	11,688	11,930	14,663
Others							
TOTAL APPLICATION OF FUNDS	**5,812**	**6,455**	**7,218**	**9,374**	**15,005**	**15,383**	**18,080**

Source: Company, HSIE Research

Cash Flow Statement

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26
Reported PBT	563	83	747	1,336	1,645	2,644	3,737
Non-operating & EO Items	43	62	101	62	(173)	(407)	(346)
Interest Expenses	364	360	360	432	332	182	103
Depreciation	289	326	342	410	289	333	348
Working Capital Change	(14)	(858)	(435)	(1,368)	(550)	(1,189)	(1,582)
Tax Paid	(262)	(59)	(31)	(459)	(414)	(665)	(941)
OPERATING CASH FLOW (a)	**983**	**(84)**	**1,084**	**412**	**1,129**	**897**	**1,320**
Capex	(515)	(56)	(261)	(601)	(384)	(492)	(384)
Free Cash Flow (FCF)	**468**	**(140)**	**823**	**(189)**	**744**	**406**	**935**
Investments	-	-	-	-	-	-	-
Non-operating Income	1	(122)	(164)	(0)	173	407	346
INVESTING CASH FLOW (b)	**(514)**	**(177)**	**(425)**	**(601)**	**(211)**	**(84)**	**(39)**
Debt Issuance/(Repaid)	(58)	591	(83)	850	(1,000)	(1,600)	(100)
FCFE	412	329	576	661	(83)	(787)	1,181
Share Capital Issuance	10	61	-	-	5,759	-	-
Dividend	-	-	-	-	-	-	-
Others	(496)	(360)	(547)	(701)	(692)	(182)	(103)
FINANCING CASH FLOW (c)	**(544)**	**292**	**(629)**	**149**	**4,067**	**(1,782)**	**(203)**
NET CASH FLOW (a+b+c)	**(75)**	**31**	**29**	**(40)**	**4,984**	**(969)**	**1,078**
EO Items, Others	317	227	457	537	1,433	6,440	5,544
Closing Cash & Equivalents	**242**	**258**	**486**	**497**	**6,418**	**5,471**	**6,622**

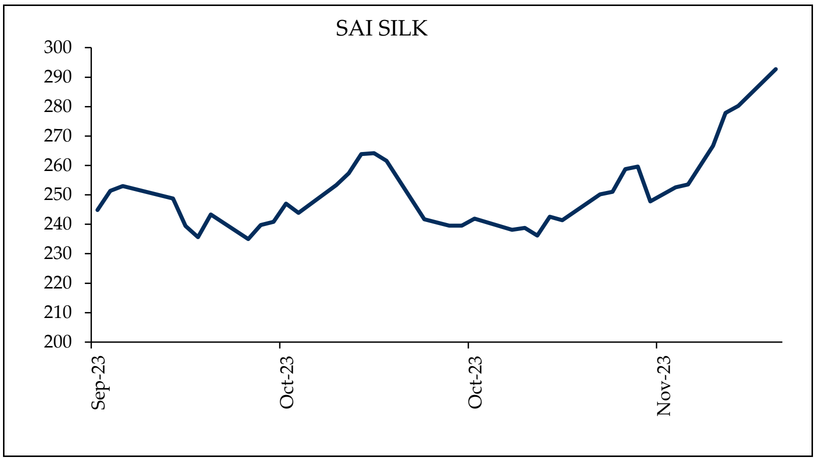
Source: Company, HSIE Research

Key Ratios

	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26
PROFITABILITY (%)							
GPM	31.5	38.0	37.3	39.1	40.2	41.1	41.8
EBITDA Margin	10.1	11.0	12.5	15.7	16.6	16.8	18.4
Pre-EBITDA Margin	9.3	9.2	11.1	13.7	14.4	14.9	16.7
EBIT Margin	7.7	6.2	9.5	12.7	12.9	13.6	15.6
APAT Margin	3.7	0.9	4.8	7.2	7.9	10.2	11.7
RoE	20.0	2.3	18.8	27.4	15.6	16.3	19.2
RoIC (or Core RoCE)	17.2	5.9	14.0	19.4	18.6	22.1	27.0
RoCE	16.9	6.0	13.6	18.8	13.9	15.1	18.4
EFFICIENCY							
Tax Rate (%)	22.1	28.7	27.1	26.9	25.2	25.2	25.2
Fixed Asset Turnover (x)	5.8	3.3	5.0	4.9	4.6	5.1	5.7
Inventory (days)	161.9	276.5	209.8	186.3	180.3	165.3	155.3
Debtors (days)	0.5	1.3	0.7	0.8	0.8	0.8	0.8
Other Current Assets (days)	7.2	11.5	13.4	16.8	14.8	12.8	12.8
Payables (days)	76.3	93.0	90.6	62.1	50.1	40.1	30.1
Other Current Liab & Provns (days)	14.8	13.5	17.0	14.3	13.3	11.3	11.3
Cash Conversion Cycle (days)	**78.4**	**182.8**	**116.3**	**127.5**	**132.5**	**127.5**	**127.5**
Net D/E (x)	0.8	1.0	0.7	0.7	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	2.4	1.2	2.9	3.8	3.6	6.4	10.3
PER SHARE DATA (Rs)							
EPS	2.9	0.4	3.5	6.4	7.4	12.3	17.5
CEPS	5.3	3.2	6.4	9.8	10.9	16.2	21.7
Dividend	-	-	-	-	-	-	-
Book Value	21.3	22.2	26.3	33.0	69.1	82.0	100.3
VALUATION							
P/E (x)				45.0	38.5	23.3	16.3
P/BV (x)				8.7	4.1	3.5	2.9
EV/EBITDA (x)				25.3	19.1	14.3	9.9
EV/Revenues (x)				3.5	2.8	2.1	1.7
OCF/EV (%)				0.9	2.8	2.3	3.5
FCF/EV (%)				(0.4)	1.9	1.0	2.5
FCFE/Mkt Cap (%)				1.5	(0.2)	(1.8)	2.7

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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