

# Sai Silks (Kalamandir)

## Q1 demand weak; TN performance on track

SSKL reported a dismal performance in Q1 (revenue declined 12.3%). As per channel checks: (1) Demand pangs are palpable across the saree/wedding-heavy apparel retailers; (2) Cash position across key players remains weak, suggesting that competitors endowed with capital may enjoy an advantage in scaling operations over the next 2-3 years; (3) The weavers' network appears to be facing financial constraints, potentially favouring retailers who can make quick payments—advantage SSKL. SSKL's TN performance continues to track well (in terms of expansion and sales density) but the core market (Telangana) needs fixing. We've cut our EPS estimates for FY25/26E by 8-11% to account for (1) Q1 demand destruction, (2) a slower build-up in sales density, and (3) lower other income. We revise our DCF-based TP to INR290/sh (implying 20x Jun-26 P/E and ~13x Jun-26 EV/EBITDA). Maintain BUY.

- **Q1 to clock a decline; recovery expected mid-Q2 onwards:** SSKL (like most wedding-heavy apparel retailers) saw a meaningful destruction in demand in Q1, courtesy (1) lower wedding dates and (2) heatwave and election-led lower footfalls. Demand across the ecosystem is expected to remain weak until mid-Aug-24 (per channel checks) and a recovery is only expected after that. Inventory levels across the ecosystem remain high and cash position across the value chain (key retailers and weavers) seems anaemic. Hence, while Q1 was a disappointment, SSKL (courtesy IPO money) is better placed to milk the TN demand (via expansion) and supply (via better sourcing margins) over the next 2-3 years.
- **VML's TN performance broadly on track; the core market needs fixing:** Since SSKL's IPO, its TN expansion via VML remains broadly on track. It has added eight new VML stores (net) since FY23 (on a base of 19 stores) and we estimate these stores are clocking INR48-50k/sq ft— higher than non-TN VML stores (<INR45k). Management intends to add ~90k sq ft, primarily in TN via VML format in FY25. Note: In FY24, TN revenue grew 54% YoY to INR1.87bn. SSKL's core market (Telangana) continues to suffer growth pangs. We suspect that a large part of the pain in Telangana stems from SSKL's value play KLM Fashion Mall (FY24 estimated decline: -6-10%). Management intends to fix this by (1) increasing GM-accretive private label salience and (2) adding faster-moving categories such as lingerie, open-footwear (ethnic), accessories, perfumes, etc., via the SIS model to attract footfalls; ergo improve sales density.
- **100-150bps GM gains expected in FY25:** SSKL has already begun paying off vendors in advance to earn better cash discounts (~INR1.16bn spent out of INR2.8bn; an additional INR0.7bn was spent on vendor payments in FY24). Corresponding GM benefits can be expected from Q1FY25 onwards. The management expects ~100-150bps GM gains in FY25. Overall, INR2.62bn out of the INR5.66bn raised stands utilised.
- **Outlook:** SSKL is predominantly an FY25 and onwards story (when most of its expansion kicks in). TN expansion continues to track well, though its core market (Telangana) needs fixing, especially in KLM format. However, the anaemic cash position of peers could ensure a benign environment for SSKL to (1) gain share in TN and (2) recoup lost ground in Telangana. Note: We've cut our EPS estimates for FY25/26E by 8-11% to account for (1) Q1 demand destruction, (2) a slower build-up in sales density and (3) lower other income. However, the risk-reward seems favourable given cheap valuations (~8x Jun-26 EV/EBITDA and <13x Jun-26 P/E). We maintain our BUY rating with a DCF-based TP of INR290/sh (implying 20x Jun-26 P/E and ~13x Jun-26 EV/EBITDA).

**BUY**

CMP (as on 05 Jul 2024)	INR 178
Target Price	INR 290
NIFTY	24,324

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 310	INR 290
EPS %	FY25E -11.6	FY26E -8.7

### KEY STOCK DATA

Bloomberg code	SSKL IN
No. of Shares (mn)	153
MCap (INR bn) / (\$ mn)	27/326
6m avg traded value (INR mn)	99
52 Week high / low	INR 312/144

### SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	60.80	60.80
FIs & Local MFs	19.83	20.42
FPIs	4.59	3.32
Public & Others	14.78	15.46
Pledged Shares (%)	60.80	60.80

Source : BSE

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### Financial Summary (INR mn)

	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	13,515	13,736	16,017	19,753	23,462
EBITDA	2,125	2,120	2,704	3,583	4,339
Pre-IND AS 116 EBITDA	1,858	1,775	2,265	3,096	3,832
APAT	976	1,009	1,381	2,054	2,618
Dil. EPS (Rs/sh)	8.1	6.6	9.0	13.4	17.1
P/E (x)	28.9	27.9	20.4	13.7	10.8
EV/EBITDA (x)	16.8	15.1	11.6	8.2	6.2
ROE (%)	26.5	13.5	12.1	15.7	17.0
ROCE (%)	22.8	14.3	13.1	16.6	17.8

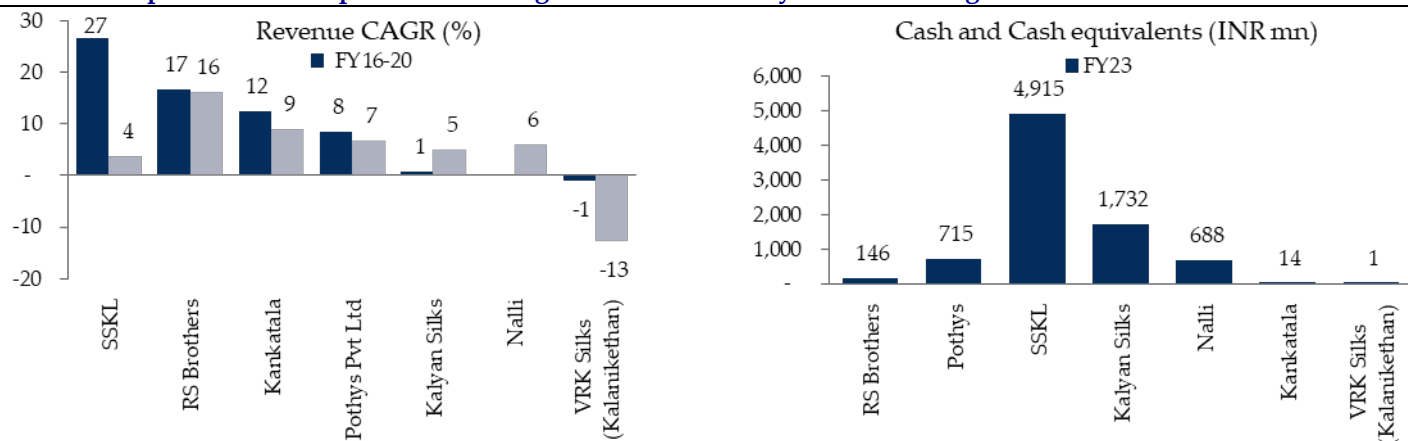
Source: Company, HSIE Research

### Estimate changes

(Rs mn)	FY25E			FY26E			FY27E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	16,017	16,452	(2.6)	19,753	20,158	(2.0)	23,462	23,462	-
Gross Profit	6,648	6,817	(2.5)	8,337	8,506	(2.0)	9,958	9,958	-
Gross Profit Margin (%)	41.5	41.4	<b>7 bps</b>	42.2	42.2	<b>1 bps</b>	42.4	42.4	-
EBITDA	2,265	2,340	(3.2)	3,096	3,199	(3.2)	3,832	3,832	-
EBITDA margin (%)	14.1	14.2	<b>(8 bps)</b>	15.7	15.9	<b>(19 bps)</b>	16.3	16.3	-
APAT	1,381	1,563	(11.6)	2,054	2,250	(8.7)	2,618	2,618	-
APAT margin (%)	8.6	9.5	<b>(88 bps)</b>	10.4	11.2	<b>(76 bps)</b>	11.2	11.2	-
EPS (Rs)	9.0	10.2	(11.6)	13.4	14.7	(8.7)	17.1	17.1	-
Cost of Retailing (%)	27.4	27.2	<b>15 bps</b>	26.5	26.3	<b>20 bps</b>	26.1	26.1	-

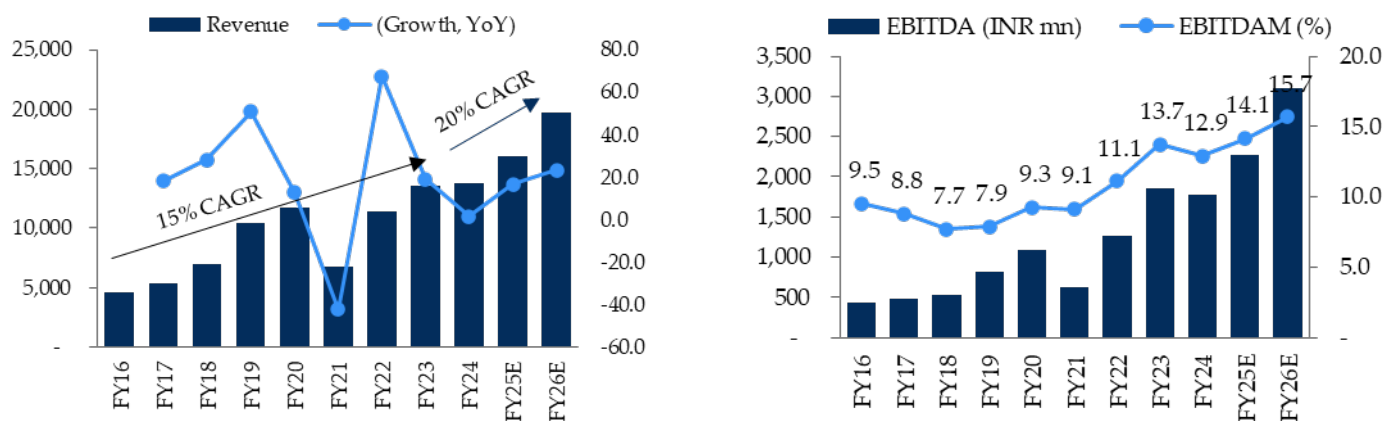
## Focus Charts

SSKL has consistently gained share over FY16-23 even among immediate peers; peers' anaemic cash position could ensure competitive landscape remains benign over the next 2-3 years – advantage SSKL



Source: Company, HSIE Research, Note: Financials for SSKL are for FY24

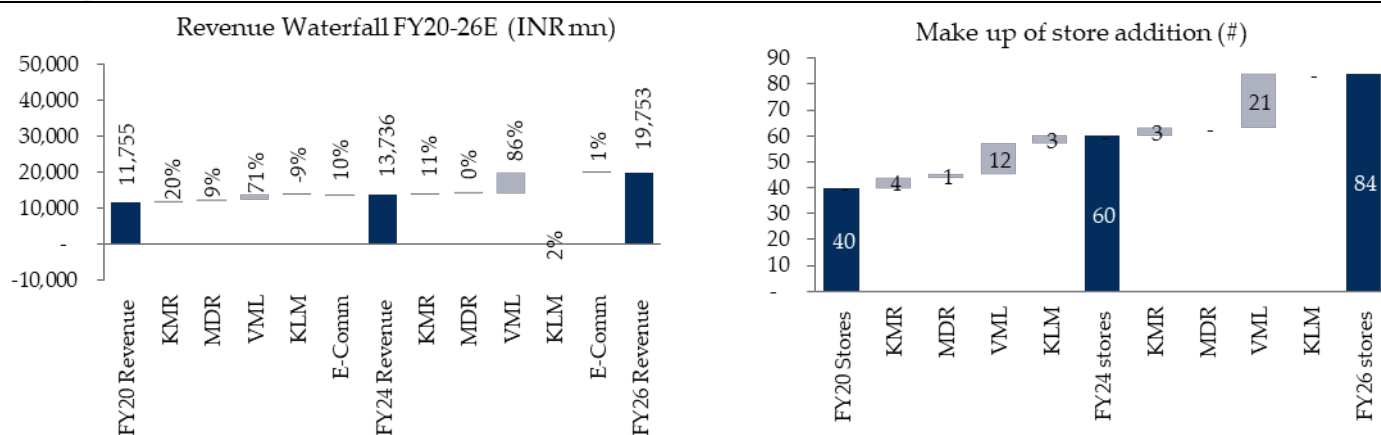
VML expansion to drive revenue growth (HSIE: 20% CAGR) and EBITDAM expansion of 275 bps over FY24-26



Source: Company, HSIE Research

Source: Company, HSIE Research

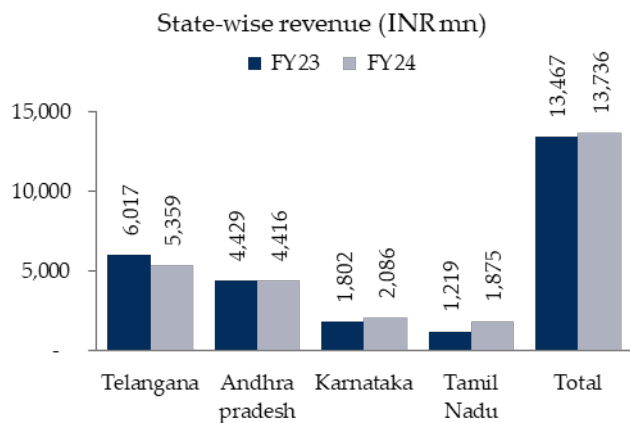
We expect VML to add 21 stores and contribute 86% of incremental revenue over FY24-26



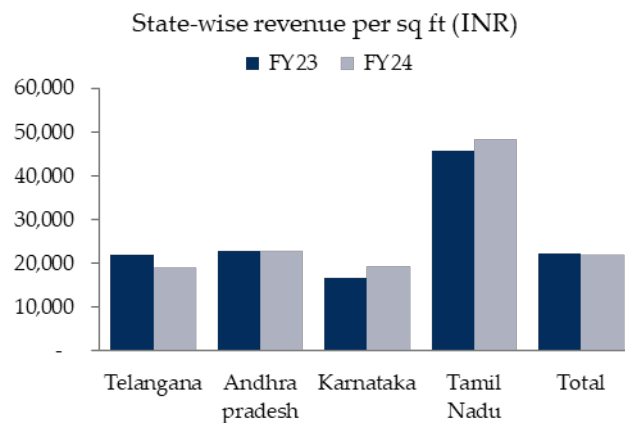
Source: Company, HSIE Research

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### TN's (VML expansion and productivity) progress seems on track

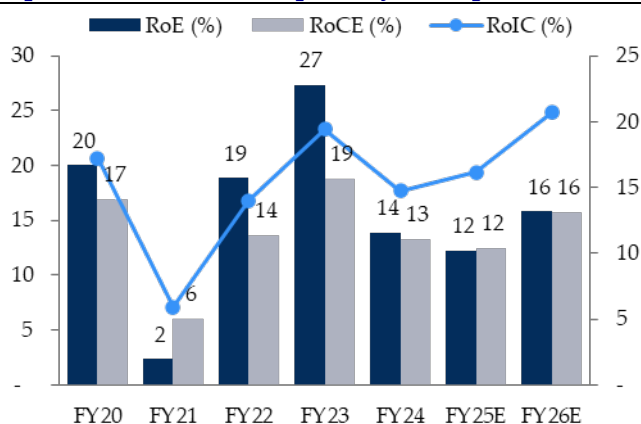


Source: Company, HSIE Research

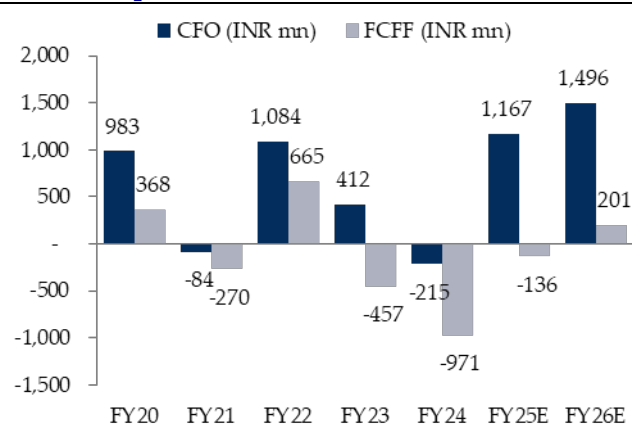


Source: Company, HSIE Research

### Expect return ratios to expand by ~300bps and free cash generation to improve over FY24-26



Source: Company, HSIE Research



Source: Company, HSIE Research

### Prudent capital allocation over last seven years (barring 1-2 years) with a decreasing proportion of interest cost

Particular (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Total
<b>Sources of Funds</b>									
CFO (excl. WC change)	475	534	826	1,259	832	1,550	2,240	2,296	7,716
Less : Rent Adjustment	0	(0)	(1)	146	154	189	268	327	755
:Int on Lease Liability Adjustment				82	80	96	147	207	405
Other Income	1	2	5	28	17	35	67	217	155
<b>Sub Total (A)</b>	<b>476</b>	<b>536</b>	<b>831</b>	<b>1,060</b>	<b>615</b>	<b>1,301</b>	<b>1,892</b>	<b>1,978</b>	<b>6,711</b>
Net Proceeds from Issue of Capital	-	45	5	10	61	-	-	5,653	121
Borrowings	(86)	40	566	(58)	591	(83)	850	(878)	1,821
<b>Total (B)</b>	<b>390</b>	<b>621</b>	<b>1,402</b>	<b>1,012</b>	<b>1,267</b>	<b>1,218</b>	<b>2,742</b>	<b>6,753</b>	<b>8,653</b>
<b>Application of Funds</b>									
Working Capital	32	(57)	528	276	917	466	1,827	2,511	3,989
Net Capex	164	401	448	515	56	261	601	412	2,446
Investments -									
- in subsidiary	-	43	-	-	-	-	-	-	43
- others	-	-	-	27	139	199	67	3,123	432
Other investing cash flows	(5)	53	30	-	-	-	-	-	78
Interest	172	181	204	269	279	262	287	311	1,654
Net Change in cash	27	0	192	(75)	(123)	29	(40)	397	11
<b>Total (C)</b>	<b>390</b>	<b>621</b>	<b>1,402</b>	<b>1,012</b>	<b>1,267</b>	<b>1,218</b>	<b>2,742</b>	<b>6,753</b>	<b>8,653</b>
<b>As a % of Source of Funds (A)</b>									
WC + Capex	41	64	117	75	158	56	128	148	96
Obligatory payments (Interest)	36	34	25	25	45	20	15	16	25
<b>Total</b>	<b>77</b>	<b>98</b>	<b>142</b>	<b>100</b>	<b>203</b>	<b>76</b>	<b>144</b>	<b>163</b>	<b>121</b>

## Income Statement

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26	FY27
<b>Net Revenues</b>	11,756	6,788	11,361	13,515	13,736	16,017	19,753	23,462
Growth (%)	4.1	(42.3)	67.4	19.0	1.6	16.6	23.3	18.8
Material Expenses	8,048	4,206	7,121	8,226	8,147	9,369	11,416	13,504
Employee Expense	1,244	968	1,174	1,408	1,646	1,938	2,370	2,804
A&P Expense	298	114	492	622	534	590	688	794
Rent Expenses	200	133	213	233	244	268	321	384
Other Expenses	778	618	942	899	1,045	1,147	1,375	1,638
<b>EBITDA</b>	1,188	749	1,420	2,125	2,120	2,704	3,583	4,339
EBITDA Growth (%)	(10.7)	(36.9)	89.5	49.7	(0.3)	27.6	32.5	21.1
EBITDA Margin (%)	10.1	11.0	12.5	15.7	15.4	16.9	18.1	18.5
Pre-IND AS EBITDA	1,088	620	1,263	1,858	1,775	2,265	3,096	3,832
Pre-IND AS EBITDA Growth (%)	(7.5)	(43.1)	103.8	47.1	(4.4)	27.6	36.7	23.8
Pre-IND-AS EBITDAM (%)	9.3	9.1	11.1	13.7	12.9	14.1	15.7	16.3
Depreciation	289	326	342	410	479	567	599	639
<b>EBIT</b>	900	423	1,078	1,715	1,641	2,137	2,984	3,700
Pre IND AS EBIT	800	401	1,039	1,650	1,508	1,954	2,763	3,471
Other Income (Including EO Items)	32	26	41	75	235	179	222	280
Interest	368	366	372	454	529	470	461	481
Pre IND AS Interest	368	302	296	307	321	240	205	205
<b>PBT</b>	563	83	747	1,336	1,347	1,846	2,745	3,499
Total Tax	125	24	203	360	338	465	691	881
<b>PAT before share of associate earnings</b>	439	59	544	976	1,009	1,381	2,054	2,618
Share of associate earnings	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	439	59	544	976	1,009	1,381	2,054	2,618
Exceptional Gain/(loss)	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	439	59	544	976	1,009	1,381	2,054	2,618
APAT Growth (%)	(23.9)	(86.5)	816.5	79.4	3.4	36.9	48.7	27.5
Adjusted EPS (Rs)	2.9	0.4	3.5	6.4	6.6	9.0	13.4	17.1
EPS Growth (%)	(40.3)	(86.5)	816.5	79.4	3.4	36.9	48.7	27.5

Source: Company, HSIE Research

## Balance Sheet

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26	FY27
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	420	426	426	241	295	295	295	295
Reserves	2,073	2,190	2,734	3,733	10,335	11,751	13,684	16,184
<b>Total Shareholders Funds</b>	2,493	2,616	3,160	3,973	10,630	12,046	13,979	16,479
Long Term Debt	349	646	540	654	226	26	26	-
Short Term Debt	1,971	2,265	2,288	2,801	2,351	1,981	1,981	1,981
<b>Total Debt</b>	2,319	2,910	2,828	3,455	2,578	2,008	2,008	1,981
Lease Liabilities	855	782	1,098	1,804	2,065	2,065	2,065	2,065
Net Deferred Taxes	140	140	121	115	102	102	102	102
Other Non-current Liabilities & Provns	5	6	11	27	26	26	26	26
<b>TOTAL SOURCES OF FUNDS</b>	5,813	6,455	7,218	9,374	15,400	16,247	18,180	20,653
<b>APPLICATION OF FUNDS</b>								
Net Block	1,791	1,653	1,698	2,047	2,220	2,429	2,464	2,500
CWIP	-	21	-	-	23	23	23	23
RoU Assets	844	712	993	1,693	1,887	1,989	1,963	1,890
Other Non-current Assets	409	411	418	417	536	536	536	536
<b>Total Non-current Assets</b>	3,043	2,797	3,110	4,157	4,666	4,977	4,986	4,948
Inventories	5,214	5,141	6,531	6,897	7,232	8,214	9,589	11,068
Debtors	17	24	22	29	33	39	48	57
Other Current Assets	231	214	417	624	469	459	566	673
<b>Cash &amp; Equivalents</b>	242	258	486	497	4,016	3,931	4,954	6,239
<b>Total Current Assets</b>	5,705	5,637	7,456	8,047	11,751	12,642	15,157	18,036
Creditors	2,459	1,729	2,821	2,300	592	878	1,353	1,607
Other Current Liabilities & Provns	477	251	528	530	424	495	610	725
<b>Total Current Liabilities</b>	2,936	1,980	3,349	2,830	1,017	1,372	1,963	2,332
<b>Net Current Assets</b>	2,769	3,657	4,108	5,217	10,734	11,270	13,194	15,705
<b>Others</b>								
<b>TOTAL APPLICATION OF FUNDS</b>	5,812	6,455	7,218	9,374	15,400	16,247	18,180	20,653

Source: Company, HSIE Research

## Cash Flow Statement

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26	FY27
Reported PBT	563	83	747	1,336	1,347	1,893	2,780	3,546
Non-operating & EO Items	43	62	101	62	(48)	(179)	(222)	(280)
Interest Expenses	364	360	360	432	518	240	205	205
Depreciation	289	326	342	410	479	311	333	361
Working Capital Change	(14)	(858)	(435)	(1,368)	(2,042)	(621)	(900)	(1,226)
Tax Paid	(262)	(59)	(31)	(459)	(469)	(477)	(700)	(892)
<b>OPERATING CASH FLOW ( a )</b>	<b>983</b>	<b>(84)</b>	<b>1,084</b>	<b>412</b>	<b>(215)</b>	<b>1,167</b>	<b>1,496</b>	<b>1,714</b>
Capex	(515)	(56)	(261)	(601)	(412)	(520)	(369)	(397)
<b>Free Cash Flow (FCF)</b>	<b>468</b>	<b>(140)</b>	<b>823</b>	<b>(189)</b>	<b>(627)</b>	<b>648</b>	<b>1,127</b>	<b>1,317</b>
Investments	(27)	(139)	(199)	(67)	(3,123)	-	-	-
Non-operating Income	28	17	35	67	217	179	222	280
<b>INVESTING CASH FLOW ( b )</b>	<b>(514)</b>	<b>(177)</b>	<b>(425)</b>	<b>(601)</b>	<b>(3,318)</b>	<b>(341)</b>	<b>(147)</b>	<b>(117)</b>
Debt Issuance/(Repaid)	(58)	591	(83)	850	(878)	(570)	-	(26)
<b>FCFE</b>	<b>412</b>	<b>329</b>	<b>576</b>	<b>661</b>	<b>(4,411)</b>	<b>256</b>	<b>1,349</b>	<b>1,571</b>
Share Capital Issuance	10	61	-	-	5,653	-	-	-
Dividend	-	-	-	-	-	-	(147)	(153)
Others	(496)	(513)	(547)	(701)	(846)	(240)	(205)	(205)
<b>FINANCING CASH FLOW ( c )</b>	<b>(544)</b>	<b>139</b>	<b>(629)</b>	<b>149</b>	<b>3,930</b>	<b>(810)</b>	<b>(352)</b>	<b>(385)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(75)</b>	<b>(123)</b>	<b>29</b>	<b>(40)</b>	<b>397</b>	<b>17</b>	<b>997</b>	<b>1,212</b>
EO Items, Others	317	381	457	537	3,620	3,914	3,957	5,027
<b>Closing Cash &amp; Equivalents</b>	<b>242</b>	<b>258</b>	<b>486</b>	<b>497</b>	<b>4,016</b>	<b>3,931</b>	<b>4,954</b>	<b>6,239</b>

Source: Company, HSIE Research

## Key Ratios

	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25	FY26	FY27
<b>PROFITABILITY (%)</b>								
GPM	31.5	38.0	37.3	39.1	40.7	41.5	42.2	42.4
EBITDA Margin	10.1	11.0	12.5	15.7	15.4	16.9	18.1	18.5
Pre-EBITDA Margin	9.3	9.1	11.1	13.7	12.9	14.1	15.7	16.3
EBIT Margin	7.7	6.2	9.5	12.7	11.9	13.3	15.1	15.8
APAT Margin	3.7	0.9	4.8	7.2	7.3	8.6	10.4	11.2
RoE	20.0	2.3	18.8	27.4	13.8	12.2	15.8	17.2
RoIC (or Core RoCE)	17.2	5.9	14.0	19.4	14.7	16.1	20.7	23.3
RoCE	16.9	6.0	13.6	18.8	13.3	12.5	15.7	17.0
RoE*	15.7	2.3	18.2	26.5	13.5	12.1	15.7	17.0
RoIC*	14.6	6.7	15.4	22.1	17.0	18.2	23.5	26.2
RoCE*	15.9	5.9	15.2	22.8	14.3	13.1	16.6	17.8
<b>EFFICIENCY</b>								
Tax Rate (%)	22.1	28.7	27.1	26.9	25.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	5.8	3.3	5.0	4.9	4.3	4.3	4.8	5.2
Inventory (days)	161.9	276.5	209.8	186.3	192.2	187.2	177.2	172.2
Debtors (days)	0.5	1.3	0.7	0.8	0.9	0.9	0.9	0.9
Other Current Assets (days)	7.2	11.5	13.4	16.8	12.5	10.5	10.5	10.5
Payables (days)	76.3	93.0	90.6	62.1	15.7	20.0	25.0	25.0
Other Current Liab & Provsns (days)	14.8	13.5	17.0	14.3	11.3	11.3	11.3	11.3
<b>Cash Conversion Cycle (days)</b>	<b>78.4</b>	<b>182.8</b>	<b>116.3</b>	<b>127.5</b>	<b>178.5</b>	<b>167.3</b>	<b>152.3</b>	<b>147.3</b>
Net D/E (x)	0.8	1.0	0.7	0.7	(0.1)	(0.2)	(0.2)	(0.3)
Interest Coverage (x)	2.4	1.2	2.9	3.8	3.1	4.5	6.5	7.7
<b>PER SHARE DATA (Rs)</b>								
EPS	2.9	0.4	3.5	6.4	6.6	9.0	13.4	17.1
CEPS	5.3	3.2	6.4	9.8	9.7	12.7	17.3	21.2
Dividend	-	-	-	-	-	1.0	1.0	1.0
Book Value	21.3	22.2	26.3	33.0	69.3	78.5	91.1	107.4
<b>VALUATION</b>								
P/E (x)			51.8	28.9	27.9	20.4	13.7	10.8
P/BV (x)			7.0	5.6	2.7	2.3	2.0	1.7
EV/EBITDA (x)			24.2	16.8	15.1	11.6	8.2	6.2
EV/Revenues (x)			2.7	2.3	1.9	1.6	1.3	1.0
OCF/EV (%)			3.5	1.3	(0.8)	4.4	5.9	7.2
FCF/EV (%)			2.7	(0.6)	(2.3)	2.5	4.5	5.5
FCFE/Mkt Cap (%)			2.0	2.3	(15.6)	0.9	4.8	5.6
Dividend Yield (%)			-	-	-	0.0	0.0	0.0

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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