

Sai Silk (Kalamandir)

Competitive intensity in core markets rising

We recently interacted with SSKL's management. Key takes were: (1) Competitive intensity in core markets (AP/Telangana) has inched up. However, management highlighted that these are momentary bursts of aggression in terms of discounts and are likely to taper off. The team is also taking initiatives to spur up sales density in these catchments; (2) VML store expansion (in Tamil Nadu) short of a couple of delays remains on track; however, sales density hasn't yet caught up to format average. This typically takes 2-3 wedding seasons to mature in terms of throughput. KLM format's performance remains a sore point (especially the Men's and Kid's wear categories). Most of the pain seems captured in valuations (~9x FY27 P/E; <5x FY27 EV/EBITDA). However, the street isn't capturing the revenue ramp-up expected from sales density improvement of the recently-added stores (11 stores added since Sep-23). We largely maintain our BUY rating with a DCF-based TP of 270/sh (implying 17x FY27 P/E).

- **Core markets are seeing momentary increase in competitive intensity:** Management highlighted that core markets (AP/Telangana) are witnessing rising competitive intensity from peers (Varahi Silks; Managalya Silk, Chennai Silks). However, it highlighted that these are momentary bursts of aggression which are likely to taper off in a quarter or two. SSKL too is taking initiatives to counter this aggression. KLM fashion mall continues to struggle (esp. in the Men's and Kid's wear categories).
- **VML's TN performance below expectations in FY25; to play catch up in FY26:** VML's expansion plan remains broadly on track, barring a few store opening delays. However, sales density hasn't yet caught up to format average. Note: 11 stores (on a base of 54 stores) have been added since Sep 2023). Hence, SSKL is yet to see the complete revenue ramp-up from these stores. It typically takes 2-3 wedding seasons for the stores to mature to steady-state sales density (for 9MFY25; TN contributed ~22% of sales; INR2.34bn vs INR1.87bn in FY24). Sales density improvement remains a key monitorable for the format's fate in TN. Cash position for TN-focused peers remains anemic; hence, competitive intensity remains benign.
- **~60bps of GM gains likely in H2FY26:** SSKL saw a meaningful reduction in creditor days (from 62 days in FY23 to 16 days in FY24; 28 days in H1FY25). This was done to pay off vendors in advance in place of better cash discounts; ergo higher GMs. However, the new 45-day MSME payment clause introduced by the government in FY24 could mean that the extent of GM expansion may be lower than earlier expected. We expect ~60bps expansion in FY26 (building in 42.3/42.6% GMs in FY26/27 respectively).
- **Outlook:** Recovery in core markets remains weak. VML's TN execution is key. However, the anemic cash position of TN-focused peers could offer a benign competitive environment for SSKL to gain share in TN. The ask from valuations remains cheap (<9x FY27 P/E). Our FY26/27 EPS estimates largely remain unchanged. We maintain our BUY rating with a DCF-based TP of INR270/sh, implying 17x FY27 P/E.

Financial Summary (INR mn)

(Rs mn)	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	4,486	3,824	17.3	3,473	29.2	11,361	13,515	13,736	14,770	18,015	20,966
Adj EBITDA	789	582	35.6	554	42.5	1,263	1,858	1,793	1,799	2,668	3,247
APAT	460	320	43.9	238	93.6	544	976	1,009	1,081	1,815	2,279
EPS (Rs)	3.1	2.1	49.8	1.6	93.6	3.7	6.6	6.8	7.3	12.3	15.5
P/E (x)						37.5	20.9	20.2	18.9	11.2	9.0
EV/EBITDA (x)						18.0	12.6	10.6	10.0	6.4	4.8
Core RoCE(%)						13.2	17.7	13.8	11.3	17.8	20.4

Source: Company, HSIE Research

BUY

CMP (as on 28 Feb 2025)	INR 135
Target Price	INR 270
NIFTY	22,125

KEY STOCK DATA

Bloomberg code	SSKL IN
No. of Shares (mn)	153
MCap (INR bn) / (\$ mn)	21/238
6m avg traded value (INR mn)	72
52 Week high / low	INR 238/134

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	60.80	60.80
FIs & Local MFs	16.16	15.41
FPIs	3.29	3.26
Public & Others	19.75	20.53
Pledged Shares	0	0

Source : BSE

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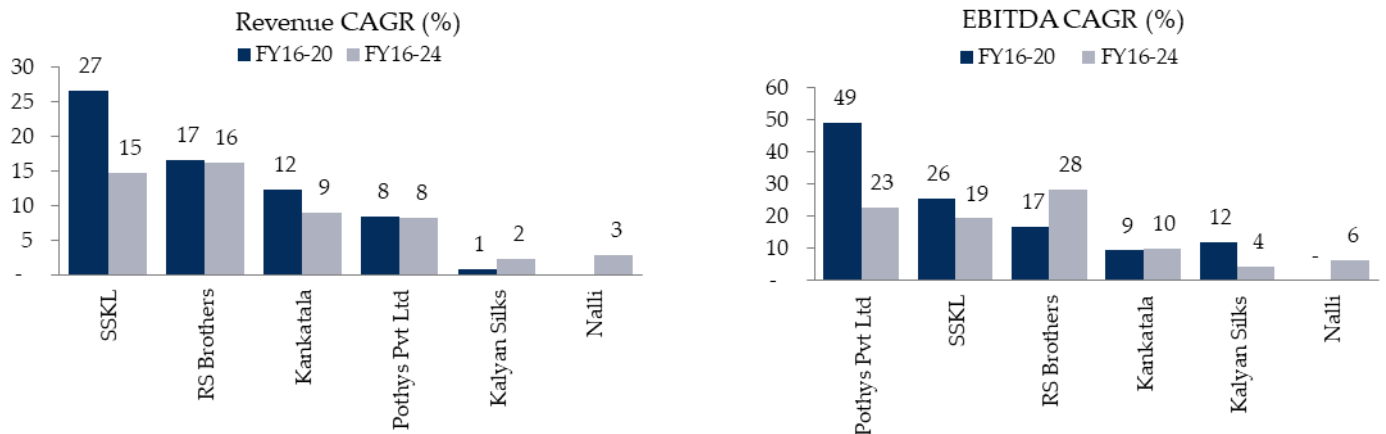
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Estimate changes

(Rs mn)	FY25E			FY26E			FY27E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	14,770	14,803	(0.2)	18,015	18,158	(0.8)	20,966	21,207	(1.1)
Gross Profit	6,163	6,177	(0.2)	7,623	7,685	(0.8)	8,922	9,025	(1.1)
Gross Profit Margin (%)	41.7	41.7	(0 bps)	42.3	42.3	(0 bps)	42.6	42.6	(1 bps)
EBITDA	1,799	1,799	(0.0)	2,668	2,691	(0.8)	3,247	3,290	(1.3)
EBITDA margin (%)	12.2	12.2	2 bps	14.8	14.8	(1 bps)	15.5	15.5	(2 bps)
APAT	1,081	1,082	(0.1)	1,815	1,830	(0.8)	2,279	2,306	(1.2)
APAT margin (%)	7.3	7.3	1 bps	10.1	10.1	(0 bps)	10.9	10.9	(1 bps)
EPS (Rs)	7.3	7.3	(0.1)	12.3	12.4	(0.8)	15.5	15.7	(1.2)
Cost of Retailing (%)	29.5	29.6	(3 bps)	27.5	27.5	0 bps	27.1	27.0	2 bps

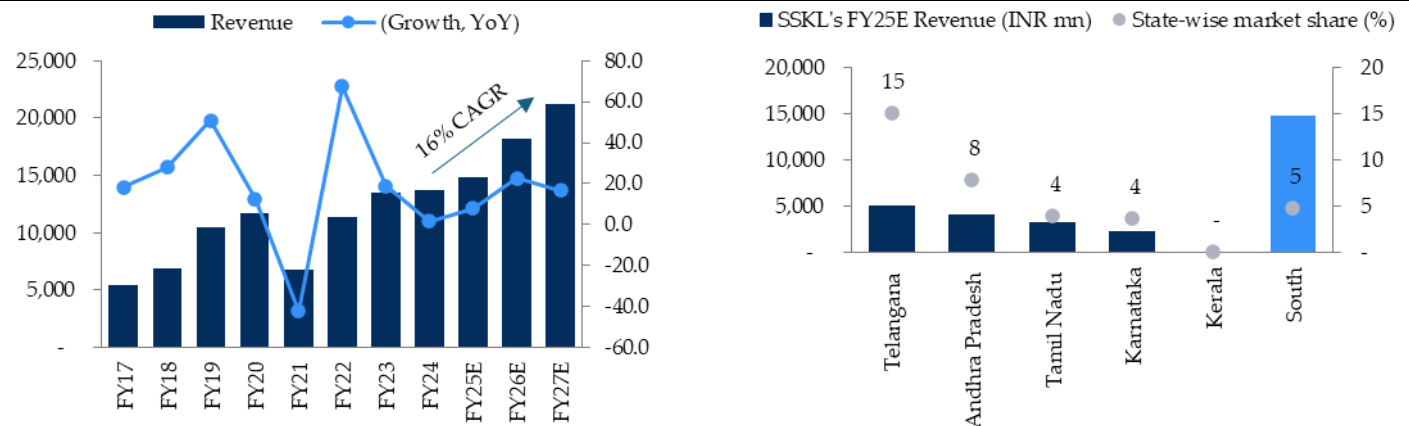
Focus Charts

SSKL has consistently gained share over FY16-24 even among immediate peers (Grew revenue/EBITDA at 15/19% CAGR)



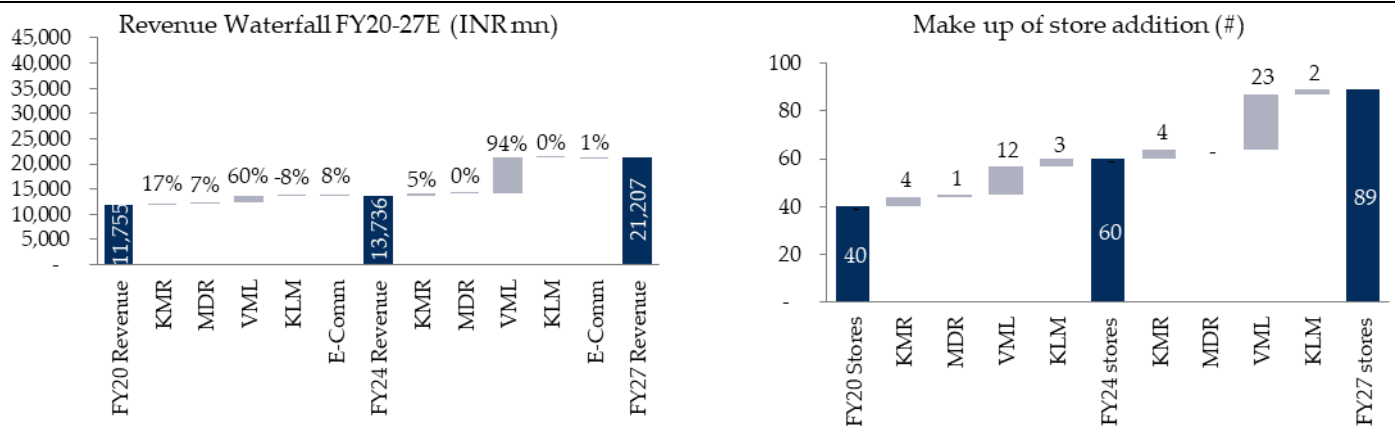
Source: Company, HSIE Research

Focus on TN market for expansion (via VML) will be the key anchor for growth over FY24-27



Source: Company, HSIE Research

Lion's share of the growth and expansion will be via the unit-economics accretive VML format...we expect VML to add >90% of SSKL's incremental revenue over FY24-27



Source: Company, HSIE Research

Income Statement

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	11,756	6,788	11,361	13,515	13,736	14,770	18,015	20,966
Growth (%)	4.1	(42.3)	67.4	19.0	1.6	7.5	22.0	16.4
Material Expenses	8,048	4,206	7,121	8,226	8,147	8,607	10,391	12,044
Employee Expense	1,244	968	1,174	1,408	1,646	1,972	2,162	2,505
A&P Expense	298	114	492	622	534	606	703	797
Rent Expenses	200	133	213	233	264	262	311	364
Other Expenses	778	618	942	899	1,026	1,121	1,322	1,522
EBITDA	1,188	749	1,420	2,125	2,120	2,203	3,126	3,734
EBITDA Growth (%)	(10.7)	(36.9)	89.5	49.7	(0.3)	3.9	41.9	19.4
EBITDA Margin (%)	10.1	11.0	12.5	15.7	15.4	14.9	17.4	17.8
Pre-IND AS EBITDA	1,088	620	1,263	1,858	1,793	1,799	2,668	3,247
Pre-IND AS EBITDA Growth (%)	(7.5)	(43.1)	103.8	47.1	(3.5)	0.3	48.3	21.7
Pre-IND-AS EBITDAM (%)	9.3	9.1	11.1	13.7	13.1	12.2	14.8	15.5
Depreciation	289	326	342	410	479	529	558	589
EBIT	900	423	1,078	1,715	1,641	1,673	2,568	3,145
Pre IND AS EBIT	800	401	1,039	1,650	1,555	1,512	2,364	2,925
Other Income (Including EO Items)	32	26	41	75	235	237	222	280
Interest	368	366	372	454	529	393	365	380
Pre IND AS Interest	368	302	296	307	343	190	146	142
PBT	563	83	747	1,336	1,347	1,517	2,425	3,045
Total Tax	125	24	203	360	338	436	610	766
PAT before share of associate earnings	439	59	544	976	1,009	1,081	1,815	2,279
Share of associate earnings	-	-	-	-	-	-	-	-
Reported PAT	439	59	544	976	1,009	1,081	1,815	2,279
Exceptional Gain/(loss)	-	-	-	-	-	-	-	-
Adjusted PAT	439	59	544	976	1,009	1,081	1,815	2,279
APAT Growth (%)	(23.9)	(86.5)	816.5	79.4	3.4	7.2	67.9	25.5
Adjusted EPS (Rs)	3.0	0.4	3.7	6.6	6.8	7.3	12.3	15.5
EPS Growth (%)	(37.9)	(86.5)	816.5	79.4	3.4	7.2	67.9	25.5

Source: Company, HSIE Research

Balance Sheet

Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital - Equity	420	426	426	241	295	295	295	295
Reserves	2,073	2,190	2,734	3,733	10,335	11,446	13,131	15,276
Total Shareholders' Funds	2,493	2,616	3,160	3,973	10,630	11,741	13,426	15,570
Long Term Debt	349	646	540	654	226	149	149	-
Short Term Debt	1,971	2,265	2,288	2,801	2,351	1,251	1,251	1,251
Total Debt	2,319	2,910	2,828	3,455	2,578	1,401	1,401	1,251
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
TOTAL SOURCES OF FUNDS	5,813	6,455	7,218	9,374	15,400	15,334	17,019	19,015
APPLICATION OF FUNDS								
Net Block	1,791	1,653	1,698	2,047	2,220	2,214	2,208	2,165
CWIP	-	21	-	-	23	23	23	23
RoU Assets	844	712	993	1,693	1,887	1,854	1,857	1,797
Other Non-current Assets	409	411	418	417	536	536	536	536
Total Non-current Assets	3,043	2,797	3,110	4,157	4,666	4,627	4,624	4,520
Inventories	5,214	5,141	6,531	6,897	7,232	7,615	8,794	9,948
Debtors	17	24	22	29	33	36	43	51
Other Current Assets	231	214	417	624	469	424	517	601
Cash & Equivalents	242	258	486	497	4,016	3,898	4,831	5,978
Total Current Assets	5,705	5,637	7,456	8,047	11,751	11,972	14,186	16,578
Creditors	2,459	1,729	2,821	2,300	592	809	1,234	1,436
Other Current Liabilities & Provns	477	251	528	530	424	456	556	648
Total Current Liabilities	2,936	1,980	3,349	2,830	1,017	1,266	1,790	2,084
Net Current Assets	2,769	3,657	4,108	5,217	10,734	10,707	12,395	14,494
Others								
TOTAL APPLICATION OF FUNDS	5,812	6,455	7,218	9,374	15,400	15,334	17,019	19,015

Source: Company, HSIE Research

Cash Flow Statement

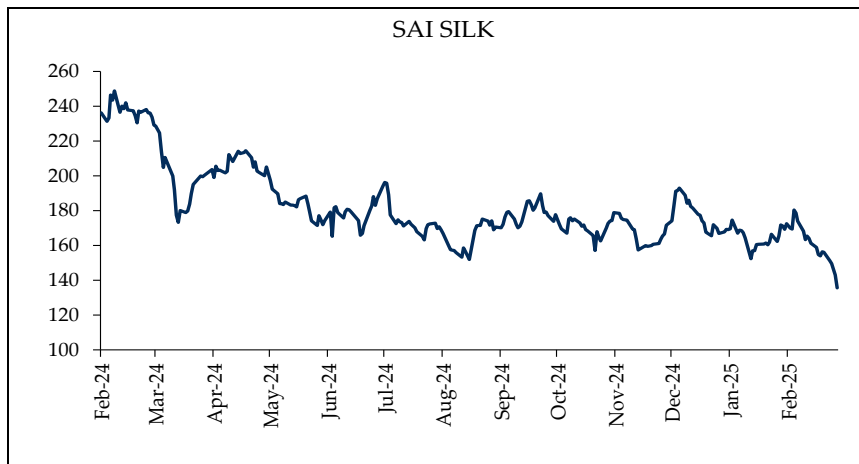
Year to March (INR mn)	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	563	83	747	1,336	1,347	1,560	2,441	3,063
Non-operating & EO Items	43	62	101	62	(48)	(237)	(222)	(280)
Interest Expenses	364	360	360	432	518	190	146	142
Depreciation	289	326	342	410	479	287	304	322
Working Capital Change	(14)	(858)	(435)	(1,368)	(2,042)	(91)	(755)	(952)
Tax Paid	(262)	(59)	(31)	(459)	(469)	(448)	(614)	(771)
OPERATING CASH FLOW (a)	983	(84)	1,084	412	(215)	1,260	1,299	1,525
Capex	(515)	(56)	(261)	(601)	(412)	(281)	(298)	(279)
Free Cash Flow (FCF)	468	(140)	823	(189)	(627)	979	1,001	1,246
Investments	(27)	(139)	(199)	(67)	(3,123)	-	-	-
Non-operating Income	28	17	35	67	217	237	222	280
INVESTING CASH FLOW (b)	(514)	(177)	(425)	(601)	(3,318)	(44)	(76)	1
Debt Issuance/(Repaid)	(58)	591	(83)	850	(878)	(1,177)	-	(149)
FCFE	412	329	576	661	(4,411)	39	1,223	1,376
Share Capital Issuance	10	61	-	-	5,653	-	-	-
Dividend	-	-	-	-	-	-	(141)	(147)
Others	(496)	(513)	(547)	(701)	(846)	(190)	(146)	(142)
FINANCING CASH FLOW (c)	(544)	139	(629)	149	3,930	(1,367)	(287)	(439)
NET CASH FLOW (a+b+c)	(75)	(123)	29	(40)	397	(151)	936	1,087
EO Items, Others	317	381	457	537	3,620	4,049	3,896	4,891
Closing Cash & Equivalents	242	258	486	497	4,016	3,898	4,831	5,978

Source: Company, HSIE Research

Key Ratios

	Pro-FY20	Pro-FY21	Pro-FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)								
GPM	31.5	38.0	37.3	39.1	40.7	41.7	42.3	42.6
EBITDA Margin	10.1	11.0	12.5	15.7	15.4	14.9	17.4	17.8
Pre-EBITDA Margin	9.3	9.1	11.1	13.7	13.1	12.2	14.8	15.5
EBIT Margin	7.7	6.2	9.5	12.7	11.9	11.3	14.3	15.0
APAT Margin	3.7	0.9	4.8	7.2	7.3	7.3	10.1	10.9
RoE	20.0	2.3	18.8	27.4	13.8	9.7	14.4	15.7
RoIC (or Core RoCE)	15.6	5.1	12.2	16.1	12.1	10.4	16.3	18.7
RoCE	15.4	5.2	11.9	15.8	11.3	8.9	12.9	14.2
RoE*	15.7	2.3	18.2	26.5	13.5	9.5	14.2	15.4
RoIC*	13.3	5.7	13.2	17.7	13.8	11.3	17.8	20.4
RoCE*	14.6	5.1	13.0	18.2	12.1	9.0	13.4	14.7
EFFICIENCY								
Tax Rate (%)	22.1	28.7	27.1	26.9	25.1	28.8	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	188.2	178.2	173.2
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 & Provns (days)	14.8	13.5	17.0	14.3	11.3	11.3	11.3	11.3
Cash Conversion Cycle (days)	78.4	182.8	116.3	127.5	178.5	168.3	153.3	148.3
Net D/E (x)	0.8	1.0	0.7	0.7	(0.1)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	2.4	1.2	2.9	3.8	3.1	4.3	7.0	8.3
PER SHARE DATA (Rs)								
EPS	3.0	0.4	3.7	6.6	6.8	7.3	12.3	15.5
CEPS	5.4	3.2	6.5	10.0	10.1	10.9	16.1	19.5
Dividend	-	-	-	-	-	1.0	1.0	1.0
Book Value	21.3	22.2	26.3	33.0	72.1	79.7	91.1	105.7
VALUATION								
P/E (x)			36.6	20.4	19.7	18.4	11.0	8.7
P/BV (x)			5.1	4.1	1.9	1.7	1.5	1.3
EV/EBITDA (x)			17.6	12.3	10.3	9.7	6.2	4.7
EV/Revenues (x)			2.0	1.7	1.3	1.2	0.9	0.7
OCF/EV (%)			4.9	1.8	(1.2)	7.2	7.9	10.1
FCF/EV (%)			3.7	(0.8)	(3.4)	5.6	6.1	8.2
FCFE/Mkt Cap (%)			2.9	3.3	(22.2)	0.2	6.1	6.9
Dividend Yield (%)			-	-	-	0.0	0.0	0.0

Source: Company, HSIE Research

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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