

November 06, 2023

Alukkas Enterprises Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	225.00	935.00	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Total	225.00	935.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers the healthy operating performance of Alukkas Enterprises Private Limited (AEPL) in FY2023 and H1 FY2024 and ICRA's expectations that such performance would sustain over the coming quarters on the back of planned store addition and market share gains from accelerated formalisation of the industry. While reaffirming the rating, ICRA notes that the Jos Alukkas Group has consolidated its jewellery retail business in AEPL with effect from April 1, 2023 through the execution of a business transfer agreement (BTA) between AEPL and two other Group entities, viz. Alukkas Jewellery Thrissur (AJT) and Alukkas Gold Retail India Private Limited (AGRIPL) on a slump sale basis for Rs. 243.5 crore and Rs. 616.6 crore, respectively. While the consideration to AJT was fully settled in cash, AEPL has issued equity shares worth Rs. 516.6 crore (representing 27.6% of AEPL's equity) to AGRIPL and the balance was settled in cash. As on September 30, 2023, AJT and AGRIPL have extended unsecured loans of Rs. 109.3 crore and Rs. 90 crore, respectively, to AEPL. ICRA understands that a minimum of Rs. 100 crore of such unsecured loans will remain subordinated to the bank borrowings and the interest on all unsecured loans shall be paid by AEPL at its average cost of borrowing. Considering the above-mentioned business transfer, the consolidated view approach that ICRA had applied earlier would no longer be applicable for arriving at the rating for the bank facilities of AEPL. Consequently, ICRA has changed its rating approach to standalone view for arriving at the rating for AEPL. ICRA understands that AJT and AGRIPL would continue to hold some real estate assets but will not have any operational or financial linkages with AEPL, going forward.

The rating factors in the healthy market position and brand equity of the Jos Alukkas Group in the jewellery retail industry in south India and its extensive store network of 47 stores as on March 31, 2023. The company plans to add 4-5 stores p.a. over the medium term to penetrate deeper into its operating markets, particularly in Andhra Pradesh, Telangana and Karnataka, which is expected to drive the medium-term revenue growth. Its operating income surged by ~28% YoY to Rs. 8,998 crore in FY2023 and ~20% YoY to more than Rs. 5,400 crore in H1 FY2024 on the back of a steady volume growth and a sustained rise in gold prices. ICRA expects AEPL's revenue to grow by 10-12% p.a. over the next 2-3 years. The Group's operating margin declined by ~40 bps YoY to 3.3% in FY2023 owing to normalisation of the gross margin and higher spending on advertising in the light of intensifying competition and planned store additions. ICRA expects AEPL's operating margin to stabilise at ~3.5% over the coming quarters.

AEPL's capital structure is expected to remain comfortable, despite moderation in its gearing due to the addition of sizeable unsecured loans from its Group entities worth Rs. 199 crore. The gearing is projected to increase to 0.7 times and TOL/TNW to 1.3 times by March 31, 2024 against 0.5 times and 1.0 times, respectively, as on March 31, 2023. The company's debt protection metrics are also expected to moderate over the next 12-18 months with the interest cover projected to stay below 4.0 times in FY2024, partly due to interest on unsecured group loans. Nevertheless, the coverage indicators are likely to remain adequate over the medium term. The rating also draws comfort from the healthy financial flexibility of the company, as reflected in TOL/Inventory of ~60% over the last three years.

The rating, however, continues to remain constrained by the relatively concentrated revenue profile of the business with Tamil Nadu accounting for more than 50% of its revenue over the last five years. Moreover, the share of studded jewellery in revenue

remains in the range of 10-12%, which constrains its gross margin. The rating also considers the exposure of AEPL's revenue and margins to volatility in gold prices due to the lack of gold price hedging mechanism and intense competition from other organised and unorganised jewellers.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company will record a healthy revenue growth and would continue to maintain adequate coverage metrics over the coming quarters on the back of healthy cash accruals and limited incremental borrowing requirements.

Key rating drivers and their description

Credit strengths

Established market position and expanding retail network – The Jos Alukkas Group is among the prominent branded jewellery retailers in India with a focussed presence in the South Indian market. The Group enjoys a healthy brand equity in Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and Telangana. The Group operated a wide network of 47 showrooms as on March 30, 2023, including four stores, which were opened during the fiscal. Going forward, the Group plans to add 4-5 new stores annually and deepen its presence in tier-2 and tier-3 cities to capitalise on its brand recognition, which is expected to benefit the company's business diversification. The Group's market position is also supported by the vast experience of its promoters in the gold jewellery industry.

Comfortable capital structure and financial flexibility – The company's capital structure remains comfortable, characterised by a gearing of 0.5 times and TOL/TNW of 1.0 times as on March 31, 2023. While the leverage is projected to marginally moderate in FY2024 due to the addition of sizeable unsecured loans from Group entities worth Rs. 199 crore as on September 30, 2023, the overall capital structure is expected to remain comfortable over the medium term due to healthy accruals and limited incremental debt requirements. Moreover, the rating draws comfort from the company's healthy financial flexibility owing to its relatively lower dependence on external debt to finance its inventory as reflected in the TOL/Inventory of ~60% over the last three years, indicating comfortable borrowing capacity of the company.

Favourable industry growth prospects – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation over the recent years, have accelerated the shift in the market share from unorganised to organised players. This industry tailwind is expected to benefit the organised jewellery retailers like Jos Alukkas over the medium term, supported by healthy brand equity and increasing retail presence.

Credit challenges

Moderate operating profitability and debt coverage indicators – The Group's profitability has remained constrained at ~3.5% p.a. over the years, except in FY2021 when the entity recorded extraordinary inventory gains, owing to the relatively lower share of higher-margin studded jewellery and an increase in advertisement spends in the recent years. AEPL's debt coverage indicators are likely to moderate over the next 1-2 years, with the projected interest cover of less than 4.0 times in FY2024, primarily due to sizeable addition to unsecured loans from Group entities. Nonetheless, customer loyalty driven by strong brand equity has augmented the turnover over the years, translating into healthy earnings and the company's efforts to increase the share of studded jewellery are expected to support its margins and coverage metrics over the medium-to-long term.

Earnings exposed to geographical concentration risks and volatility in gold prices – The Group, a south India-based jewellery retailer, derives over half of its revenue from Tamil Nadu, with Karnataka, Andhra Pradesh, Telangana and Kerala being the other major contributors. High geographical concentration of revenue exposes the Group to risks arising from any local event, which could adversely impact the business profile. However, the risk is mitigated to an extent by the Group's strong brand presence. The management plans to open new stores outside Tamil Nadu over the coming years, which is likely to improve the company's geographical diversification of revenue over the medium term. Besides, the Group's profitability remains

exposed to volatility in gold prices in the absence of metal gold loans or a defined hedging practice. This is, however, mitigated to a large extent by the extensive experience of the promoters and daily purchase of gold to manage inventory costs.

Intense competition and exposure to regulatory risks – The domestic jewellery retail sector continues to be exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on the business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit and imposition of excise duty are some of the regulations that have impacted business prospects in the past. The company remains exposed to regulatory changes, which may impact its business performance. Additionally, the sector is highly fragmented and is exposed to intense competition from organised and unorganised players, which limits the pricing flexibility of retailers to an extent.

Liquidity position: Adequate

AEPL's liquidity position remains adequate, characterised by free cash and liquid investments of more than Rs. 150 crore and unutilised working capital facilities of more than Rs. 200 crore (with commensurate drawing power) as on September 30, 2023. The average utilisation of its fund-based bank facilities remained ~80% over the 12-month period ending on August 30, 2022. The company is expected to generate fund flow from operations of Rs. 200-250 crore p.a. over the next 1-2 years, against which it has repayment obligations of Rs. 13-14 crore towards lease liabilities and vehicle loans. AEPL's capex requirements of ~Rs. 40-50 crore p.a. are likely to be funded through its internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade AEPL's rating if there is a sustained healthy improvement in its revenue and profitability on the back of improving business diversification through store addition and an increase in the share of studded jewellery, while maintaining comfortable debt protection metrics and healthy liquidity position.

Negative factors – Pressure on AEPL's rating could arise if there is sustained deterioration in its operating performance and/or the working capital cycle, adversely impacting the coverage metrics and the liquidity position. Any large cash outflow to Group entities could also put pressure on the rating. Specific credit metrics that could result in rating downgrade include TOL/TNW above 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellery Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Alukkas Enterprises Private Limited (AEPL) is the flagship entity of the Jos Alukkas Group, which commenced its jewellery retailing operations in 2002 with a showroom in Thrissur, Kerala. The company operated 47 stores as on March 31, 2023 across Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and Telangana. The company is headed by Mr. Jose Alukka and actively managed by his sons – Mr. Varghese Alukka, Mr. Paul J. Alukka and Mr. John Alukka.

Till FY2023, the Group's jewellery retail operations were spread across three entities – Alukkas Jewellery Thrissur, which operated showrooms in Kerala, Alukkas Gold Retail India Private Limited, which operated showrooms in Tamil Nadu and Alukkas Enterprises Private Limited, which operates showrooms across rest of India. With effect from April 1, 2023, the Group has consolidated its jewellery retail business under AEPL through a business transfer agreement between the three entities.

Key financial indicators

Jos Alukkas Group (Consolidated)	FY2022 (audited)	FY2023 (audited)
Operating income	7,054	8,998
PAT	158	190
OPBDIT/OI	3.7%	3.3%
PAT/OI	2.2%	2.1%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	2.6	2.8
Interest coverage (times)	4.9	4.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Note: The financial statements of AEPL, Alukkas Gold Retail India Private Limited and Alukkas Jewellery Thrissur were combined by ICRA to arrive at the rating till FY2023. With effect from April 01, 2023, the jewellery business of AGRIPL and AJT has been transferred to AEPL and accordingly, the rating approach has been revised to standalone.

Alukkas Enterprises Private Limited	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (unaudited)
Operating income	2,229	2,905	5,422
PAT	79	91	117
OPBDIT/OI	4.8%	4.8%	3.4%
PAT/OI	3.5%	3.1%	2.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.6	1.2
Total debt/OPBDIT (times)	0.7	1.3	2.6
Interest coverage (times)	12.5	9.7	5.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2021	
				Nov 06, 2023	Jan 17, 2023	Jan 05, 2023	Mar 22, 2022	Dec 14, 2020	Oct 30, 2020
1 Cash Credit	Long-term	935.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	Cash Credit	NA	NA	NA	935.00	[ICRA]A (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – N.A.

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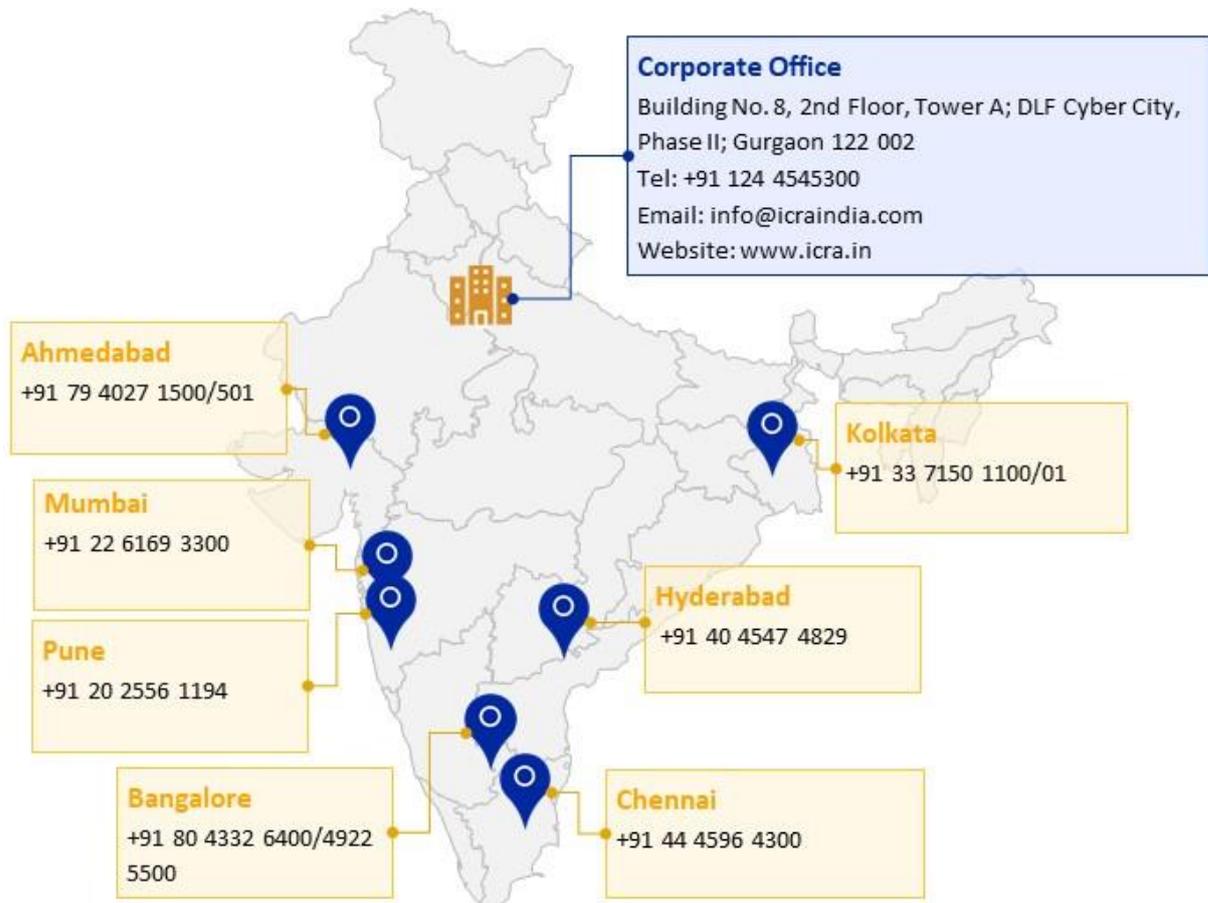
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