

December 30, 2024

## 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 Limits – Working Capital Facilities	1,210.00	1,385.00	[ICRA]A+ (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based Limits – Term Loans	6.29	6.29	[ICRA]A+ (Stable); reaffirmed
<b>Total</b>	<b>1,216.29</b>	<b>1,391.29</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating considers the steady growth in the turnover of Alukkas Enterprises Private Limited (AEPL) over the past couple of fiscals, which is likely to continue in the medium term, driven by addition of stores planned by the entity and elevated gold prices. ICRA also notes the sharp improvement in the margins of the company in FY2024 over the previous fiscal, driven by the rally in gold prices, leading to an increase in the overall profits and cash accruals from business, which positively impacted the coverage metrics of the company. ICRA does not foresee any decline in the operating profit margin (OPM) in the current fiscal. Nevertheless, the OPM in the subsequent fiscals will remain dependent on gold price fluctuations as the entity does not formally hedge its gold inventory at present.

The rating continues to favourably factor in the long experience of the promoters in the retailing business of jewellery made of gold, silver, platinum and diamond, along with AEPL's long presence and strong brand recall (Jos Alukkas) in southern India. In view of the planned expansion of its retail outlets along with rising gold prices, the top line of the company is likely to register a steady growth in the medium term. The RoCE of the company is likely to remain at a healthy level in the near-to-medium term. AEPL's comfortable financial risk profile, as reflected by adequate coverage metrics, also supports the rating. The rating also draws comfort from the healthy financial flexibility of the company, as reflected by TOL/Inventory of ~67% in FY2024, which is likely to improve further over the medium term. The rating further considers the favourable long-term growth prospects of organised jewellers with an accelerated shift in the market share from unorganised to organised jewellers, which is likely to benefit AEPL.

The rating, however, is constrained by the vulnerability of AEPL's earnings to volatility in gold prices, an intense competition on the back of a fragmented industry structure and aggressive store expansion plans undertaken by large jewellers, along with the inherent regulatory risks associated with the jewellery business and a cautious lending environment. The ratings continue to factor in the high working capital intensive nature of operations, necessitated from large inventory holding due to its nature of business, which results in higher dependence on working capital loans. The rating is also impacted by the relatively higher geographical and product concentration risks as AEPL derives more than 50% of its revenue from Tamil Nadu and also more than 90% of its revenue comes from gold jewellery.

The Stable outlook on the long-term rating reflects ICRA's opinion that AEPL's operational and financial performances will continue to benefit from its established market position, increased focus on expansion into new markets and generation of adequate cash flows relative to its debt service obligations.

## Key rating drivers and their description

### Credit strengths

**Established market position, expanding retail network along with strong brand recognition in southern India** – The company is among the prominent branded jewellery retailers in India with a focussed presence in the South Indian market. The promoters' extensive experience in the jewellery retail industry and healthy brand recall of the 'Jos Alukkas' in most of its key operating regions support its operating performance, as demonstrated by the healthy revenue growth over the past two years. The company has been operating through a wide network of 59 company-owned and company-operated (COCO) showrooms as of November 2024, including six stores, which were added during the current fiscal. Going forward, the company plans to add 8-10 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.

**Steady growth in top line and improved margins, thereby increasing profits and cash accruals from business** – The operating income of the company witnessed a steady growth over the past couple of years, primarily driven by the increase in gold price. Growth in sales volume of gold also played a significant role towards the growth trajectory. The company has been adding new stores over the past few years, which also augmented the revenue growth. Moreover, increase in revenue from non-gold jewellery, which accounted for ~6% of its revenue in FY2024, also supported its top line growth over the past two years. The OPM of the company rose to 5.1% in FY2024 from 3.2% in FY2023 due to an increased margin on sales, amid rising gold prices, and control over overheads. The net profit margin (NPM) followed suit and improved to 3.3% in FY2024 from 2.1% in FY2023. Accordingly, the RoCE improved and remained at a healthy level of around 23% in FY2024. Improved margins amid a growing scale of operations resulted in increasing profits and cash accruals from the business in the last two fiscals. In view of the planned addition of retail outlets and a strong brand equity of the company, the overall volume of sales in FY2025 is likely to grow, though the same may moderate on a YoY basis. However, the company's operating income is likely to rise by more than 20%, on a YoY basis, in FY2025 primarily on the back of a sharp increase in gold price. The overall profits and cash accruals from the business are also projected to increase in FY2025, primarily driven by growing scale of operations.

**Comfortable debt protection metrics** – The capital structure of the company has remained conservative with a gearing and TOL/TNW of 0.8 times and 1.3 times, respectively as on March 31, 2024. With a sharp rise in profits and cash accruals, the coverage indicators of the company improved in FY2024 over the previous fiscal and stood at a comfortable level. In view of sizeable profits and cash accruals from the business, ICRA expects the company to register a gradual improvement in the capital structure and coverage indicators, going forward.

**Favourable long-term growth prospects for organised jewellery retailers** – Increasing regulations in the jewellery retail industry in the recent years, aimed at improving transparency and standardisation, have accelerated the shift in the market share from the unorganised players to organised ones. The industry tailwinds are expected to benefit organised jewellery retailers like AEPL over the medium term, supported by its expanding retail presence. Also, the customs duty cut of 9% on gold, in the Union Budget in July 2024, is likely to disincentivise illegal import, benefiting the organised players.

### Credit challenges

**Performance exposed to intense competition and regulatory risks in retail jewellery segment** – Jewellery retail business is very competitive, with a large share of unorganised trade. This coupled with robust store expansion by larger retailers into tier-2 and tier-3 cities in the recent years has intensified competition and limited the pricing flexibility. AEPL remains exposed to intense industry competition with limited pricing flexibility and presence of a large number of organised and unorganised players, which would keep its margins under check. Further, the share of studded jewellery remains low, in line with the consumer preferences in southern India, where AEPL operates, which limits its profitability to an extent. ICRA expects the OPM of the company to remain at around 5% in the current fiscal. However, the same in the subsequent fiscals will remain dependent on the gold price fluctuations as the entity does not formally hedge its gold inventory at present. The jewellery retail industry has witnessed increased regulatory intervention in the recent years, like restrictions on bullion imports, limited access to gold metal loans, limitation on jewellery saving schemes, mandatory PAN disclosure on transactions above a

threshold limit, implementation of the Goods and Service Tax etc., which impacted the operating environment and consequently the performance of the jewellers. Increasing supervision and cautious lending environment further restricted fund flows to the sector. However, AEPL enjoys a healthy relationship with banks and has been able to increase its working capital limits on a timely basis.

**Earnings exposed to geographical concentration risks and volatility in gold prices** – The company, 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 company to risks arising from any local event, which could adversely impact the business profile. However, the risk is mitigated to an extent by the company's strong brand presence. The company has been opening new stores outside Tamil Nadu, which is likely to improve its geographical diversification of revenue over the medium term. Besides, the company's profitability remains exposed to volatility in gold prices in the absence of gold metal loans or a formal hedging practice. This is, however, mitigated to a large extent by the extensive experience of the promoters and daily purchase of gold, in line with sales, to manage inventory costs.

**High working capital intensive nature of operations** – Jewellery retailing business is highly working capital intensive in nature, given the need to display varied designs of jewellery to its customers. AEPL generally maintains an inventory of 4-5 months on an average, across its stores, depending on the footfall and the stockholding surge during the festive season. However, the net working capital relative to the operating income of the company increased to 20% in FY2024 from 16% in FY2023, largely driven by reduced payables. Additionally, given the rising gold prices and expected top line growth, the working capital intensity may increase to some extent, going forward. With a large stockholding requirement, dependence on working capital loans remains high. The company's ability to manage its inventory levels and liquidity position, while increasing the scale will be the key determinants of its financial risk profile.

### Liquidity position: Adequate

The company generated negative cash flow from operations in the last year due to a sizeable scale-up of operations along with an increase in the working capital intensity of operations. Further, a significant growth in the top line expected in FY2025 via addition of new stores and elevated gold prices would lead to higher inventory holding and is likely to impact the cash flow from operations. The same is estimated to remain negative in FY2025 as well. The average fund-based working capital utilisation of the company stood at a relatively higher level of around 83% during the last 15 months, ended in October 2024. However, the company has enhanced its working capital limits in the recent past, which would support its liquidity. AEPL had unencumbered cash/ bank balance and liquid investments of around Rs. 175 crore as on March 31, 2024. The company has long-term debt repayment obligations of Rs. 8-10 crore, including lease liabilities, over the next two years. AEPL is expected to generate cash accruals of around Rs. 450 crore in FY2025, which along with incremental customer advances would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and moderate capital expenditure of Rs. 25-30 crore. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

### Rating sensitivities

**Positive factors** – ICRA may upgrade AEPL's rating if there is a sustained healthy improvement in its revenue and earnings 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 improving in liquidity position.

**Negative factors** – Pressure on AEPL's rating could arise if there is a 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 other entities could also put pressure on the rating. Specific credit metrics that could result in rating downgrade include TOL/TNW above 1.2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Jewellery – Retail</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

## 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 effect from April 1, 2023, the Group has consolidated its jewellery retail business under AEPL through a business transfer agreement between the three entities. The company operates in five states – Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana, and one Union Territory – Puducherry. The company is involved in retailing of gold/ silver/ diamond/ platinum and various studded jewellery and operates through 59 showrooms, as of November 2024, spread across the southern region of India. The company is headed by Mr. Varghese Jose Alukka and is actively managed by his sons – Mr. Jose Varghese Alukka, Mr. Jose John Alukka and Mr. Jose Paul Alukka.

## Key financial indicators (audited)

AEPL, Standalone	FY2023	FY2024	H1 FY2025*
Operating income	8,998.9	10,910.3	6,728.1
PAT	193.2	363.1	257.4
OPBDIT/OI	3.2%	5.1%	6.0%
PAT/OI	2.1%	3.3%	3.8%
Total outside liabilities/Tangible net worth (times)	1.6	1.3	1.2
Total debt/OPBDIT (times)	2.7	2.1	1.6
Interest coverage (times)	4.4	6.0	8.3

Source: Alukkas Enterprises Private Limited, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of rating history for the past 3 years			
			Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			Dec 30, 2024	Dec 17, 2024	Nov 6, 2023	Jan 17, 2023	Jan 05, 2023	Mar 22, 2022
1 Working Capital Facilities	Long Term	1,385.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loans	Long Term	6.29	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL 1	-	-	-	130.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 2	-	-	-	125.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 3	-	-	-	250.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 4	-	-	-	125.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 5	-	-	-	125.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 6	-	-	-	350.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 7	-	-	-	50.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL 8	-	-	-	230.00	[ICRA]A+ (Stable)
NA	TL/ Vehicle Loan 1	FY2022	-	FY2029	6.19	[ICRA]A+ (Stable)
NA	TL/ Vehicle Loan 2	FY2022	-	FY2025	0.10	[ICRA]A+ (Stable)

Source: Alukkas Enterprises Private Limited

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

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

Not applicable

## ANALYST CONTACTS

**Mr. Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Mr. Sujoy Saha**  
+91 33 7150 1184  
[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Ms. Kinjal Shah**  
+91 22 6114 3400  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Mr. Sandipan Kumar Das**  
+91 33 7150 1190  
[sandipan.das@icraindia.com](mailto:sandipan.das@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.