

September 06, 2017

Alapatt Fashion Jewellery, Kothamangalam**Summary of rated instruments**

Instrument *	Rated Amount (Rs. Crore)¹	Rating Action
Long Term – Fund based facilities	13.50	[ICRA]BB-(Stable) / revised from [ICRA]BB(Stable)

* Instrument details are furnished in Annexure - 1

Rating Action

ICRA has revised the long-term rating outstanding on the Rs. 13.50 crore² fund based facilities of Alapatt Fashion Jewellery, Kothamangalam to [ICRA]BB- (pronounced as ICRA double B minus) from [ICRA]BB(Stable). The outlook on the long-term rating is Stable.

In arriving at the ratings, ICRA has taken a consolidated view of the three jewellery retail entities under the Francis Alapatt Group (“the Group”)—Alapatt Jewellers (Alapatt Heritage), Alapatt Fashion Jewellery (Kothamangalam) and Alapatt Fashion Jewellery (Kozhikode)—considering the common management and the presence of strong operational linkages shared among the entities.

Rationale

The rating revision takes into account the sustained fall in revenues during FY 2017 affected by low footfalls in the Kochi store owing to the inconvenience caused by construction of Metro Rail in the vicinity of the store apart from demand side challenges due to elevated gold prices and post effects of demonetisation. Sales in Kozhikode and Kothamangalam stores were also lower due to weak demand. Lower sales coupled with high fixed overheads translated to net losses and erosion of networth in FY2017. The ratings also factor in the intense competition from large and regional players in the Kochi market impacting the volumes and margins. Working capital intensity was high during FY2017 with rise in inventory days; this is attributed to fall in sales and also due to the inherently slow moving nature of Group’s inventory as it primarily focuses on value-added jewellery.

However, the ratings remain supported by the long standing experience of the promoters in the jewellery retail business, and committed funding support as witnessed in FY2017. The ratings also draw comfort from the established brand (Alapatt) presence and positioning as niche, design-focused jewellery player which entails higher gross margins. With the opening of Metro Station in Kochi coupled with the taxation benefits post GST, the group’s demand prospects are favourable. That said, with presence only in three locations and no expansion plans envisaged in the medium term, the Group remains exposed to geographic concentration risks.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit Strengths

- **Established presence for nearly three decades** – Incorporated in 1988 as a proprietorship concern, the Group commenced operations with a 2000 sq. ft. rented retail outlet in Kochi. In 1998, the firm started operating from owned premises and subsequently opened two new showrooms at Kothamangalam and Kozhikode. The three decades of established market presence has enabled strong brand equity among affluent customers in the region.
- **Loyal customer base owing to consistent efforts for supply of new designs** – The outlets are located at prominent locations in Kochi and Kozhikode in Kerala. The firm also focuses on attaining design leadership among its peers by constantly introducing new varieties of premium jewellery. The strategic location coupled with the brand image and edge for new designs has supported brand recall from repeat customers and supported the revenues. Though the footfalls in Kochi store were affected due to the Metro Rail works near the store's vicinity, the demand is expected to pick up from the current fiscal as the metro works were completed during June 2017.
- **Favourable long-term industry outlook** - The near term demand outlook for the gold jewellery industry is favourable. ICRA expects a sizeable churn in the unorganised segment owing to the Government's push towards transparency, thus benefiting the organised trade. Buoyed by this structural shift and changing landscape, organized retailers are also expected to continue to gain volume share in this scenario, where the long term fundamentals of the industry remain strong driven by the cultural affinity in the country, which allows room for multiple players to co-exist.

Credit Weaknesses

- **Falling revenues and deteriorating debt indicators** – The group's revenues stood at ~Rs. 50 crore in FY2016 and FY2017 (down from Rs. 88 crore in FY2015). The drop in revenues is largely attributed to decline in volumes in Kochi store due to construction of metro work in the store's vicinity; also factors like industry-wide strikes against the imposition of excise duty levy, currency demonetisation, elevated gold prices amidst regulatory challenges affected the revenues. Stores in Kothamangalam and Kozhikode also registered sales de-growth on account of weak rural demand. Fall in revenues coupled with high operating costs resulted in net losses and erosion of networth. However, with the Kochi metro work being completed and GST viewed favourable, the group is sanguine of achieving higher revenues and improving the margins from FY2018.
- **High working capital intensity** – The Group's inventory is characterised by higher share of large and chunky jewellery suitable for specific occasions. The drop in volumes and realisations had resulted in pile up of inventory leading to stretched working capital intensity. The utilisation on working capital loans has remained full in the last one year.
- **Intensifying competition limits pricing flexibility** - The gold jewellery retail business is highly competitive with large presence of unorganised players. This coupled with major store expansions by larger retailers in the recent fiscals has intensified the existing competition and limited the pricing flexibility amongst the players.
- **High regulatory related challenges** - Since FY2014, the Indian jewellery retail industry has been witnessing increased regulatory intervention which impacted the operating environment and consequently the financial performance of jewellers. Measures like 20/80 restriction on imports, limited access to metal loans albeit for a brief period, mandatory PAN card disclosure requirement for

purchases to Rs.2 lakhs, curb on jewellery saving schemes, imposition of excise duty, demonetisation etc., had its effect on both demand and supply.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Gold Jewellery Retail Industry](#)

About the Group

Alapatt Heritage Group belongs to the Francis Alapatt Group of entities, with diversified interests in businesses ranging from jewellery retail, hospitality, marketing of liquor to distribution of FMCG goods and adhesives. However, the jewellery business contributes nearly 90% to the Group's revenues. The Group also has three showrooms in Kerala—one in Kochi (Alapatt Jewellers [Alapatt Heritage], Ernakulam), one at Kozhikode (Alapatt Fashion Jewellery, Kozhikode) and one at Kothamangalam (Alapatt Fashion Jewellery, Kothamangalam).

Entity Profile

Alapatt Fashion Jewellery, Kothamangalam is a partnership firm set up by Mr. Francis Alapatt at Cochin, Kerala in 1988. However, with sharp decline in volumes due to increasing competitive intensity in the Ernakulam region coupled with cannibalization of sales by its own store (Alapatt Jewellers, Alapatt Heritage), the entity has closed down the showroom and shifted the operations to Kothamangalam region (55 km north of Cochin). The firm is currently engaged in the business of gold and diamond jewelry retailing and operates with single retail showroom (~5,000 sq. ft. area) located at Kothamangalam. The firm's bullion requirements are met by bullion purchase from banks / nominated agencies and through gold melted from the exchange of old jewelry from customers. Jewelry manufacturing is outsourced to local goldsmiths, with a portion of its requirements met from jewelry purchases from wholesalers.

Key Financial Indicators

	Alapatt Group (Consolidated)		Alapatt Fashion Jewellery, Kothamangalam	
	FY2016 (Audited)	FY2017 (Provisional)	FY2016 (Audited)	FY2017 (Provisional)
Operating Income (Rs. crore)	50.4	49.3	12.4	10.8
PAT (Rs. crore)	(2.5)	(7.3)	(1.3)	(2.7)
OPBDIT/ OI (%)	1.0%	(3.6%)	2.9%	(6.5%)
RoCE (%)	0.4%	(1.4%)	0.72%	(3.4%)
Total Debt/ TNW (times)	0.6	1.9	3.8	11.0
Total Debt/ OPBDIT (times)	114.2	(34.5)	49.3	(24.4)
Interest coverage (times)	0.1	(0.3)	0.2	(0.4)
NWC/ OI (%)	113.5%	101.7%	128.4%	115.2%

Amounts in Rs. crore; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table: 1

S. No.	Instrument	Current Rating			Chronology of Rating History for the past three years		
		Type	Amount rated (Rs. crore)	September 2017	March 2016	April 2015	May 2014
1	Fund based facilities	Long term	13.50	[ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure -1
Instrument details

Instrument	Date of issuance	Coupon rate	Maturity Date	Amount rated (Rs. crore)	Current rating and Outlook
Fund based facilities	-	-	-	13.50	[ICRA]BB-(Stable)

Source: Firm

CONTACT DETAILS

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

K Srikumar

+91 44 45964318

k.srikumar@icraindia.com

Hemamalini S C

+91 44 4596 4311

hemamalini.chandrasekaran@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500