

Alapatt Fashion Jewellery, Kothamangalam

| Instrument | Amount (Rs. crore [*]) | Rating action (February 2016) |
|-----------------------------------|-------------------------------------|--|
| Long-term - Fund based facilities | 13.50 | [ICRA]BB (Stable) / downgraded from [ICRA]BB+ (Stable) |

ICRA has downgraded the long-term rating outstanding on the Rs. 13.50 crore fund based facilities of Alapatt Fashion Jewellery, Kothamangalam (“AFJK”/ “the firm”) to **[ICRA]BB** (pronounced ICRA double B) from [ICRA]BB+ (pronounced ICRA double B plus)[†]. The outlook on the long-term rating is **Stable**.

In arriving at the ratings, ICRA has taken a consolidated view of the three jewelry 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.

The rating revision takes into account the sharp decline in revenues and profits in 2014-15 and the current fiscal due to a sharp decline in footfalls in the Kochi store owing to the inconvenience caused by the ongoing Metro Rail construction in the vicinity of the store. With a presence only in three locations and no expansion plans envisaged in the medium term, the Group remains exposed to geographic concentration risks. The ratings also factor in the slow moving nature of the Group’s high value inventory, which has aggravated its working capital intensity, as reflected in high utilization levels of its cash credit facilities. This exposes the Group’s profitability to any sharp fluctuations in both gold prices and foreign exchange rates. ICRA takes note of the material presence of family-owned showrooms (primarily those run by the promoter’s kin) carrying the brand name, *Alapatt*, which has led to cannibalization of sales among these showrooms in the past. However, the rebranding efforts taken by the management in the recent past have mitigated this risk to an extent. The ratings also factor in the entry of large regional and corporate retailers in the high margin jewelry segment, which could lead to pricing pressures for the Group. However, ICRA takes comfort from the long-term favorable demand prospects for the domestic jewelry industry, which leaves sufficient room for multiple large-scale organized players to co-exist.

The rating, however, considers the experience of promoters in the jewelry retail business for more than two decades. ICRA notes the established market presence of the Group at prominent locations in Kochi and Kozhikode, Kerala, and the strong equity enjoyed by the brand (*Alapatt*) among affluent consumers in the region. These factors have acted as strong catalysts for the Group’s volumes, backed by repeat customers. Furthermore, the Group’s presence in a niche high value-add jewelry segment has aided the generation of healthy operating margins in the past, besides limiting competition to a large extent. Going forward, the ability of the Group to improve its working capital position and enhance its revenues and margins, in view of the increasing presence of larger retailers in the Kochi region, would be crucial to improve the overall credit profile.

Group Profile

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

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

^{*} 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA’s website (www.icra.in) or other ICRA rating publications



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.

February 2016

For further details, please contact:

Analyst Contacts:

Mr. Subrata Ray (Tel. No. +91 22 6114 3408)
subrata@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

© Copyright, 2016, 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 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.

**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: **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: **9821086490**Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
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: **9845022459**Email: jayantac@icraindia.com

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

Bangalore**Bangalore****Mr. Jayanta Chatterjee**Mobile: **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: **989986490**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: **989986490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

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