

Alapatt Jewellers (Alapatt Heritage), Ernakulam

Instrument	Amount (Rs. crore [*])	Rating action (February 2016)
Long-term - Fund based facilities	22.00	[ICRA]BB (Stable) / downgraded from [ICRA]BB+ (Stable)

ICRA has downgraded the long-term rating outstanding on the Rs. 22.00 crore fund based facilities of Alapatt Jewellers (Alapatt Heritage), Ernakulam ("AJAHE"/ "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 Jewellers (Alapatt Heritage), Ernakulam, 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 Kothamangalam (Alapatt Fashion Jewellery, Kothamangalam).

Entity Profile

Alapatt Heritage, the flagship showroom of the Francis Alapatt Group of firms is located at MG Road in Ernakulam, Kerala, with an approximate showroom size of 12,500 sq. ft. (~50,000 sq. ft. of additional

^{*} 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.



space). It is among the largest jewelry showrooms in Kerala in terms of size. The showroom was incorporated in 2004, and commenced operations from 2007-08. The showroom primarily deals with high-end fashion jewelry, gold and diamond jewelry, as well as also an assortment of fashion watches. 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.

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