Alapatt Jewellery (House of Alapatt)

January 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	5.50	5.50	[ICRA]BB-(Stable); Reaffirmed
Total	**5.50**	**5.50**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 5.50-crore[1] fund-based facilities of Alapatt Jewellery (House of Alapatt) (HOA or the firm)[2]. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in the extensive experience of the promoters in the jewellery retail business for over two decades, HOA's established brand name ensuring customer loyalty and the prominent store location in Cochin (Kerala) driving the footfalls. Following a 12.4% de-growth in FY2017, the firm's revenues grew by 20.5% in 8M FY2018 supported by the sharp demand rebound and increasing revenues from the higher margin diamond-jewellery segment. Its financial profile remains supported by low gearing levels on the back of steady funding support from the promoters.

However, the rating remains constrained by the limited scale of operations and geographical concentration risk due to its single-showroom presence, the increasing competition from other renowned jewellery retailers in the Cochin region and the cannibalisation of sales among other family-owned Group entities sharing the 'Alapatt' brand name. That said, the firm's aggressive promotion campaigns focussing on diamond sales, mitigates the risk to a large extent. The rating also factors the working-capital intensive nature of operations characterised by high inventory levels and the increasing regulatory interventions affecting the industry demand.

Outlook: Stable

ICRA expects HOA's revenues to grow at ~15-20% in FY2018 and ~10%, over the next two years, supported by sustained demand underpinned by the cultural affinity for gold. The outlook maybe revised to 'Positive' if the increasing share of diamond sales supports higher margins and better inventory management strengthens the financial-risk profile. The outlook maybe revised to 'Negative' if a sharp decline in revenues and profitability affects the liquidity profile of the firm.

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[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

Extensive experience of the promoters - The long standing presence of Jose Alapatt Group since 1988 (and that of brand Alapatt for over six decades) in the Cochin market has enabled the firm in enhancing the brand loyalty as it enjoys the continued patronage of its customers in Cochin.

Established brand image and prominent store location drive footfalls - HOA operates out of a ~15000-sq. ft. showroom in Cochin's MG Road. The footfalls, which were subdued in FY2017 due to the metro-rail construction works in the outlet's vicinity, have regularised owing to completion of the works during current fiscal.

Healthy revenue growth during current fiscal - HOA's revenues grew by 20.5% in 8M FY2018 backed by a sharp demand rebound. Though the Goods and Service Tax (GST) implementation had impacted the sales (albeit for a brief period), the festive and wedding demand had supported the revenues.

Comfortable capital structure - HOA's financial profile remains comfortable with low debt levels and a comfortable gearing, which stood at 0.6 times as on March, 2017. The promoters have been infusing funds, over the years, indicative of their commitment and timely support. Going forward, with no significant debt-funded capital expenditure envisaged in the medium term, the gearing levels are likely to improve further with a likely accretion to reserves.

Credit challenges

Limited scale of operations and geographical concentration risk due to single-showroom presence - In the absence of a large showroom network, the firm's growth potential is limited. With no major expansion plans in the medium term, HOA faces geographical concentration risk along with intense competition from the large retail brands and other unorganised players. However, the increased ad spends and focused sales-promotion initiatives have supported its sales to some extent.

Cannibalisation of sales among family-owned entities sharing 'Alapatt' brand - The larger Alapatt Group operated by the six Alapatt brothers, all carries the same brand name "Alapatt". The brand name enjoys significant equity in the region due to its six-decade long presence. However, the ambiguity owing to similar names (of the now separately-held family entities) has led to cannibalisation of sales among the different showrooms in Cochin region.

Working-capital intensity remains high characterised by high inventory levels - The working-capital intensity, which stood at 75.7% was predominantly high owing to higher inventory holding. As inherent to the trading nature of the jewellery business, the firm requires a large quantum of gold ornaments in its showrooms to cater to the requirements of the retail customers. However, it takes a six-year average value of gold prices. As a result, the average cost of inventory held by the firm is low with a significant buffer to the current market prices.

Regulatory risks - The jewellery-retail industry has been witnessing an increased regulatory intervention, in the last three years, which impacted the operating environment and consequently the performance of jewellers (both manufacturers and retailers). The measures like 20/80 restriction on imports, mandatory PAN card-disclosure requirement for purchases up to Rs. 2.0 lakh, imposition of excise duty, currency demonetisation, inclusion of the jewellery sector under the Prevention of Money Laundering Act (albeit for brief period) 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 company:

Alapatt Jewellery (House of Alapatt) (HOA / the firm) is a Cochin-based partnership firm established by Mr. Jose Alapatt in 1994. It is involved in gold and diamond jewellery retailing through its ~15,000-square feet retail showroom located in Cochin. The firm meets its gold requirement primarily through melting of old gold exchanged by customers and outsourcing the jewellery manufacturing to local goldsmiths. HOA meets its diamond jewellery requirement through diamonds procured from merchants based out of Mumbai and Bangalore.

In FY2017, the firm reported a net profit of Rs. 0.3 crore on an operating income (OI) of Rs. 28.5 crore, as compared to a net profit of Rs. 0.2 crore on an OI of Rs. 32.7 crore in the previous year.

Key financial indicators (Audited)

	FY2016	**FY2017**
Operating Income (Rs. crore)	32.7	28.5
PAT (Rs. crore)	0.2	0.3
OPBDIT/ OI (%)	5.5%	6.1%
RoCE (%)	7.4%	6.7%
Total Debt/ TNW (times)	0.5	0.6
Total Debt/ OPBDIT (times)	4.4	5.6
Interest Coverage (times)	1.7	1.7
NWC/ OI (%)	74.5%	74.8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating January 2018**	**Date & Rating in FY2017 November 2016**	**Date & Rating in FY2016 October 2015**	**Date & Rating in FY2015 October 2014**
1	Cash Credit	Long Term	5.50	-	**[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.50	[ICRA]BB- (Stable)

Source: Alapatt Jewellery (House of Alapatt)

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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.

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