Alukkas Jewellery Thrissur

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based facilities	66.50	84.50	[ICRA]A- (Stable); Reaffirmed
Short Term – Fund based sub-limits	(20.00)	-	[ICRA]A2+; Withdrawn
Total	**66.50**	**84.50**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 84.50-crore[1] (enhanced from Rs. 66.50 crore) fund-based facilities of Alukkas Jewellery Thrissur (AJT or the company)[2]. The outlook on the long-term rating is Stable. ICRA has withdrawn the short-term rating outstanding on the fund-based sub-limits of Rs. 20.00 crore of AJT.

Rationale

The ratings remain supported by Jos Alukkas Group's (the Group) established presence in southern India and the entrenched experience of the promoters in the gold jewellery retail industry. The ratings also factor in the stable revenue and earnings growth in FY2017 and H1 FY2018, moderate gearing, debt coverage metrics and strong liquidity position of the Group. The growth has been aided by favourable demand for organised players with formalisation of the sector and improving operating efficiencies through effective store management.

The ratings, however, remain constrained by risks of geographic concentration with ~53% of its revenues derived from the Tamil Nadu market and low profitability margins due to the limited value addition done and the increasing competition limiting pricing flexibility. The ratings also factor in the high working capital intensity in the business due to large inventory holding and the absence of formal hedging mechanisms, thereby exposing the margins to volatile gold prices. The ratings also remain constrained by the accentuated regulatory risks which have affected both demand and supply in the past.

Outlook: Stable

ICRA believes that Jos Alukkas Group's revenues will continue to witness steady growth supported by steady demand, strong brand presence and extensive experience of the promoters. The outlook may be revised to Positive if substantial growth in gold sales volumes supports the revenues and margins and if better working capital management improves the overall financial profile. The outlook may be revised to Negative if lower-than-expected cash accruals or increased working capital intensity, weakens the liquidity position.

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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 Jos Alukkas Group has been in the gold jewellery retailing business for over six decades, led by the promoter's strong experience and commitment in the business. With its long-standing presence, the Group has built a loyal customer base amidst competition from organised and unorganised players, and has garnered a stable market share in the region it operates.

Established brand equity - The promoter's vast experience, coupled with focus on selling jewellery designs suiting the specific tastes and preferences of the customers enabled the Jos Alukkas Group to establish a strong brand equity in the southern Indian states, which has driven footfalls and volume growth over the years. Amidst heightened competition in the industry, the Group has sustained its market share led by its focused presence in Tier-2/3 markets, marketing initiatives and jewellery saving schemes targeting the middle class customers.

Strong revenue and earnings growth in last three years – The Group's revenues and earnings have been increasing at a healthy pace in the recent years with a three-year CAGR of 19.2% and 20.3% respectively (ending FY2017). Performance in FY2018 remained strong with growth being aided by favourable demand for organised players with formalisation of the sector and the group's store expansions in recent years. Further, in the last two years, the Group has been involved in improving operating efficiencies to achieve better regional oversight and volume growth by way of better store management and inventory holding. The Group has reorganised the existing 35 showrooms among the three Group entities as per which the stores in Tamil Nadu now form a part of the Alukkas Gold Retail India Private Limited. The stores in Kerala are under Alukkas Jewellery Thrissur and all other stores in Karnataka, Telangana and Andhra Pradesh are under Alukkas Enterprises Private Limited.

Moderate debt protection metrics and strong liquidity position – The Group's capitalisation and coverage indicators have remained moderate with interest coverage ratio of 2.4 times as of March 2017 (improved from 2.2 times as of March 2016) and adjusted total outside liabilities to operating profits of 6.1 times as of March 2017 (vs. 7.0 times as of March 2016). The Group's liquidity position is comfortable with unencumbered cash balances and liquid investments of ~Rs. 151 crore as of March 2017 and average working capital utilisation of ~62% during the 12 months ended July 2017.

Credit challenges

High geographical concentration risk – The Jos Alukkas Group derived 53% of its revenues from Tamil Nadu in FY2017 followed by 19% from Karnataka and 14% each from Kerala and Andhra Pradesh leading to geographical concentration risks. Nevertheless, the risk is mitigated by the Group's approach of targeting the Tier 2 / Tier 3 cities than metros, which are more competitive and involve high operating costs. While the concentration risk is expected to remain high with five new stores being proposed in Tamil Nadu over the medium term, its established brand presence and revenues from repeat customers acts as risk mitigants.

Pricing pressure due to low value addition and high competition limits margin expansion – Gold jewellery retailing is competitive with large presence of large organised and unorganised players. This, coupled with the limited value addition, limits the pricing flexibility of the players resulting in thin operating margins. Further, as the retail business is working capital intensive in nature with adequate inventory required to be maintained across stores, earnings remain exposed to volatility in gold prices. The Group's net margin has remained thin over the years due to the Group's focus on the fast moving low value added gold jewellery and also on account of the increasing competition from established retailers in the Tier 2 / Tier 3 cities of southern India. However, the customer loyalty driven by strong brand equity has augmented the sales volumes over the years, thus resulting in stable profits in recent years.

High working capital intensity – Jewellery retailing is inherently working capital intensive on account of the optimal inventory required to be maintained across the stores. The Group's working capital intensity (24.9% in FY2017) remains high and is exposed to volatile gold prices in the absence of a formal hedging mechanism. While the rationalisation of inventory holding across the stores has improved the working capital cycle and inventory rotations, working capital intensity is likely to remain at elevated levels, given the store expansion plans of the Group.

Accentuated regulatory risks – The jewellery retail industry has been witnessing increased regulatory intervention in the last three years which impacted the operating environment and consequently the performance of the jewellers. Measures like 20/80 restriction on imports, limited access to gold metal loans, mandatory Permanent Account Number (PAN) disclosure requirement for purchases above Rs. 2 lakh, limitation on jewellery saving schemes, imposition of excise duty, demonetisation etc., inclusion of jewellery sector under Prevention of Money Laundering Act (albeit for brief period) has had its effect on both demand and supply. Increasing supervision and the current cautious lending environment is expected to restrict fund flows in the sector over the short term.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of the three entities in the Jos Alukkas Group (the Group) – Alukkas Gold Retail India Private Limited, Alukkas Enterprises Private Limited and Alukkas Jewellery Thrissur. These entities have a common management along with strong operational and financial linkages among themselves.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Gold Jewellery Retail Industry

About the company:

Jos Alukkas group of entities, with Mr. Jose Alukka as its Chairman, commenced jewellery retail operations in 2002 with a showroom in Thrissur, Kerala. The group consisted of four entities including AGRIPL, AEPL, AJT and Alukkas Jewellery Alappuzha (AJA) - of which the latter two being partnership firms. AJA was merged with AJT with effect from June 1, 2017 for better operating efficiency. The group is currently managed by the promoter's three sons – Mr. Paul Alukka, Mr. Varghese Alukka and Mr. John Alukka. Currently, the group has 35 stores across the five states in South India. In addition to jewellery retailing and manufacturing businesses, the group has nine investment companies and two real estate companies.

Key financial indicators - Group (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2,545.0	2,981.0
PAT (Rs. crore)	45.5	67.3
OPBDIT/ OI (%)	5.1%	5.5%
RoCE (%)	15.0%	17.3%
Total Debt/ TNW (times)	1.1	1.1
Total Debt/ OPBDIT (times)	3.8	3.4
Interest coverage (times)	2.2	2.4
NWC/ OI (%)	28.6%	24.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating April 2018	Date & Rating in FY2017 April 2017	Date & Rating in FY2016 January 2016	Date & Rating in FY2015 December 2014
1	Fund based facilities	Long Term	84.50	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Fund based sub-limits	Short Term	-	-	-	[ICRA]A2+	[ICRA]A2+	-

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	84.50	[ICRA]A- (Stable)

Source: Alukkas Jewellery Thrissur

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Hemamalini S C
+91 44 4596 4311
hemamalini.chandrasekaran@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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