Alapatt Fashion Jewellery, Kozhikode

March 28, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	7.00	7.00	[ICRA]D; downgraded from [ICRA]BB- (Stable)
Total	**7.00**	**7.00**	

**Instrument details in Annexure -1*

Rationale

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) Ernakulam, 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 reflects recent delays in debt servicing by Alapatt Jewellers (Alapatt Heritage) Ernakulam, Alapatt Fashion Jewellery, Kothamangalam and Alapatt Fashion Jewellery, Kozhikode resulting from the strain in the company's liquidity profile. The group's revenues continued to decline in FY2018, affected by low footfalls in the Kothamangalam and Kozhikode owing to weaker demand. Lower sales coupled with high fixed overheads translated to net losses and further erosion of networth in FY2018. Also, the sales during the 9M FY2019 was much lower due to slowdown in economic activity in the region post Kerala floods in August 2018. The group continues to face intense competition from large and regional players in the Kerala market impacting the volumes and margins. Working capital intensity was high during FY2018 with rise in inventory days, which is attributable 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, ICRA takes note of the long experience of the promoters in the jewellery retail business.

Outlook: Not applicable

Key rating drivers

Credit strengths

Long experience of the promoters in the jewellery retail business- The promoters and their family members have been involved in the jewellery retail business for more than three decades indicating long experience in the industry.

Credit challenges

Delays in debt servicing and overutilization on cash credit facilities due to strained liquidity position – The group's liquidity position remained stretched due to high inventory period of 491 days as on March 31, 2018, which led to increased working capital intensity from 97.9% in FY2017 to 103.7% in FY2018. High working capital requirement and losses at operating level led to overutilization of cash credit facility.

Financial profile characterised by shrinking scale of operations, net losses and weak return indicators- The group has small scale of operations and has witnessed significant revenue de-growth over the last four-year period. The OI stood at Rs. 22.1 crore in 9M FY2019 as against Rs. 39.0 crore in FY2018 and Rs. 51.3 crore in FY2017. Its continuously declining OI and high fixed costs have also resulted in continuous net losses and negative RoCE.

High gearing levels due to erosion of net worth base from sizeable accumulated losses- High debt level along with continuously eroding net worth has resulted in a highly leveraged capital structure and weakened coverage indicators as indicated by a gearing of 11.5 times, TOL/TNW of 12.1 times, interest coverage of -0.1 times and total debt/ OPBITDA of -65.3 times.

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.

Liquidity position

The group has high net working capital intensity of ~104% as on March 31, 2018 resulting in increased reliance on external borrowings. ICRA also takes note of the increase in unsecured loans from promoters in the current fiscal in order to decrease the dependence on the working capital borrowings; however, the working capital limits of the group have remained over-utilised in the recent past. Low operating profitability along with high interest cost led to cash losses.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	Rating is based on consolidated financial statements of Alapatt Jewellers (Alapatt Heritage) Ernakulam, Alapatt Fashion Jewellery, Kothamangalam and Alapatt Fashion Jewellery, Kozhikode

About the company

Alapatt Fashion Jewellery, Kozhikode is a partnership firm set up by Mr. Francis Alapatt at Kozhikode, Kerala in 1997. The firm is currently engaged in the business of gold and diamond jewelry retailing and operates with single retail showroom (~3,000 sq. ft. area) located at Kozhikode. 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.

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).

Key financial indicators – Consolidated (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	51.3	39.0
PAT (Rs. crore)	-6.9	-7.5
OPBDIT/ OI (%)	-0.7%	-2.2%
RoCE (%)	-0.9%	-2.0%
Total Debt/ TNW (times)	6.9	11.5
Total Debt/ OPBDIT (times)	-159.6	-65.3
Interest Coverage (times)	-0.1	-0.1
NWC/ OI (%)	97.9%	103.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2018 (Rs.crore)	Date & Rating Mar 2019	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 Mar 2016
1	Cash Credit	Long Term	7.00	-	**[ICRA]D**	[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	-	-	-	7.00	[ICRA]D

Source: Alapatt Fashion Jewellery, Kozhikode

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