

Press Release

R K R Gold Private Limited

December 26, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 90.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (Read as **ACUITE double B minus**) and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.90.00 crore bank facilities of R K R Gold Private Limited (RGPL). The outlook is '**Stable**'.

The downgrade in the rating reflects stretch in the liquidity marked by high bank limit utilisation and tightly matching accruals to the debt obligations besides capex programme. The rating is also constrained by below-average financial risk profile. However, the ratings continue to reflect the vintage of the operations and established presence in the gold manufacturing industry.

RGPL established in 1986 is promoted by Mr. S V Sreenivasen and his family members. It is engaged in the manufacturing of gold and diamond jewellery. The company caters to clients in India and overseas (Middle East, Malaysia and Singapore) market. The manufacturing facilities are located at RS Puram and Coimbatore (Tamil Nadu). It is a part of R K R group.

Analytical Approach

ACUITE has consolidated the financial and business risk profiles of R K R Gold Private Limited (RGPL) and R K R Gold Bullion Private Limited (RGBPL). Both the entities referred to as the R K R Group on account of the similarities in the lines of business, intercompany transactions and common management.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

RGPL was established in 1986 as a partnership firm and converted into a private limited company in 2006. The company is managed by Mr. S. V. Sreenivasen and his family members. The key promoter has been in the gold manufacturing business for more than three decades. Long track record of operations supported in establishing and deepening healthy relations with the clientele include Malabar Gold Private Limited, Joy Alukkas Jewellery LLC, Thangamyil Jewellery Limited among others. To augment the operations, company has been continuously expanding the team as well as the required infrastructure to enhance the manufacturing capacity of gold and diamond studded jewellery of hand and machine made.

The group has nearly 100,000 designs in its product portfolio. RGPL derives about 23 per cent of its revenues from overseas market, and rest from domestic market. RGPL's revenues have improved to Rs.310.7 crore in FY2018, against Rs.298.7 crore in FY2017; though on a consolidated basis declined from Rs.1639.7 crore in FY2017 to Rs.796.52 crore in FY2018 majorly driven by reduced focus on volume driven low or no profit bullion operations. Acuite believes that RGPL's business risk profile is expected to benefit from the experienced management with strong second line of personnel and long track record of operations.

- **Comfortable working capital cycle**

Working capital cycle of the group is comfortable with Gross Current Assets (GCA) at 39 days in FY2018, though stretched from 20 days in FY2017. Debtor's stood at 21 days in FY2018 as against 9 days in FY2017, partly owing to high year-end sales. Inventory stood at 14 days as against 9 days in FY2017. The increase in the holding and realisation levels overall lead to full utilisation of its bank lines for the last six months through November 2018. High utilisation is also attributed to modest cash accruals which are just sufficient to meet its repayment obligations and continuous debt-funded capex. Acuite believes that with established track record of material movement and reputed clientele, working capital cycle of the company continues to be at similar levels over the medium term.

Weaknesses

- **Below average financial risk profile**

Financial risk profile of the group is below average marked by moderately high gearing, total outside liabilities to total net worth (TOL/TNW) and below average debt protection metrics. Gearing is high at 2.73 times as on 31 March, 2018 as against 2.61 times as on 31 March, 2017. TOL/TNW is high at 4.26 times as on 31 March, 2018 as against 4.41 times as on 31 March 2017. Net worth is modest at Rs.28.06 crore as on 31 March, 2018 as against Rs.26.16 crore as on 31 March, 2017. Of the total debt of Rs.76.46 crore as on 31 March, 2018, long term debt constitutes Rs.9.82 crore, unsecured loan of Rs.0.97 crore and short term debt of Rs.65.66 crore.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt are below average at 1.43 times and 0.04 times respectively in FY2018. The group has incurred capex of about Rs.3.30 crore in FY2018, and is expecting incremental capex of about Rs.2.00 crore for completion of the administrative-cum-manufacturing unit during FY2019. The group's tightly matching annual cash accruals of about Rs.3.30 crore for repayments and regular debt-funded capex partly constrained the liquidity and the financial risk profile; though, partly overcome through sale of non-core assets and infusing liquidity into the company. The ability of the group to improve the financial risk profile with adequate cash accruals, and infusion of funds by the promoters are the key rating sensitivity factors over the near to medium term.

- **Intense market competition and exposure to fluctuations in rawmaterial prices**

The R K R group faces stiff competition from other jewellery manufacturers. Also, since the company exports its products, it is exposed to foreign exchange fluctuation risk. The major raw material procured was gold bullion, the prices of which are highly volatile. Hence, adverse movements may affect the profitability.

Outlook: Stable

Acuite believes that R K R Group will maintain a 'Stable' outlook over the medium term on account of its experienced management and long standing presence in Tamil Nadu. The outlook may be revised to 'Positive' in case the group registers higher than expected growth in its core manufacturing revenues, and profitability while improving its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the financial risk profile on account of higher debt funded working capital requirements or larger-than-expected capex.

About the Group

R K R Group started in 1986 was engaged in gold manufacturing as well as bullion operations till 2013. Later, the bullion operations were hived off into a separate company under the name- R K R Gold Bullion Private Limited (RGBPL).

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	796.52	1639.72	1212.52
EBITDA	Rs. Cr.	14.09	13.74	13.22
PAT	Rs. Cr.	2.53	-0.53	1.84
EBITDA Margin	(%)	1.77	0.84	1.09
PAT Margin	(%)	0.32	-0.03	0.15
ROCE	(%)	14.18	12.41	27.77
Total Debt/Tangible Net Worth	Times	2.73	2.61	2.47
PBDIT/Interest	Times	1.43	1.16	1.37
Total Debt/PBDIT	Times	5.07	5.50	4.92
Gross Current Assets (Days)	Days	39	20	29

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Nov-2017	Cash Credit	Long Term	55.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4 (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE B+ / Stable (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ / Stable (Downgraded)

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