

Press Release

Caps Gold Private Limited

December 22, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B Minus**) on the Rs. 75.00 Cr bank facilities of Caps Gold Private Limited (CAPS). The outlook is '**Stable**'.

Caps Gold Private Limited (CAPS) is a Hyderabad based company established in 1901, by Chanda Anjaiah. CAPS Gold is a Wholesaler in precious metals (Gold & Silver) and also engaged in retail jewelry business. The company's day to day operations are managed by Mr. Chanda Venkatesh (Managing Director) and his family. The company operates 4 gold retail showrooms under the brand name of KALASHA in Telangana (2) and one each in Karnataka and Andhra Pradesh.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of CAPS to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of the promoters in bullion trading and jewellery business**

The promoters Mr. Chanda Venkatesh and his family is in the gold business around 120 years and has strong relationships with its diversified customer portfolio comprising renowned retailers about 4000 across India to support the repeated business and volume growth over the years. Acuite believes that CAPS's business risk profile is expected to benefit from the experienced management supported by strong second and third lines of personnel are expected to continue to support the CAPS's market position over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the CAPS is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing and TOL/TNW stood moderate at 0.93 times and 1.92 times as on 31 March, 2020 (provisional) as against 0.79 times and 1.39 times as on 31 March, 2019. The Net worth stood at Rs. 49.20 Cr as on 31 March, 2020 as against Rs47.03 Cr as on 31 March, 2019 (includes quasi equity of Rs. 27 Cr). Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.14 times and 0.06 times, respectively, in FY2020 vis à vis 2.12 times and 0.08 times, respectively, in FY2019. Its Debt-EBIDTA stood high at 7.29 times in FY2020 (provisional) as against 6.29 times in FY2019. Acuité believes that the financial risk profile of the CAPS is expected to moderate over the medium term.

- **Efficient working capital management**

CAPS's working capital management is efficient, with gross current assets (GCA) of 8-14 days historically due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The inventory days 4-12 during FY2018-FY2020 and the debtor days are at a day due to all the transactions are cash and carry basis. This results in low reliance on bank lines at about 23 percent over six months through September 2020. Acuité believes that CAPS operation continues to be efficiently managed supported by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

- **Declined revenues and low profitability**

CAPS's revenues declined by 27% in FY2020 and 12 percent in FY2019, owing to a decline in its bullion trading operations. Despite the reduction in the revenue, CAP's operating profitability increased to 0.18 % in FY20 (Provisional) (FY19: 0.10%; FY18: 0.09%) on the back of the company's increased focus on retailing. Further, in the bullion segment, the margins are thin due to the trading nature of operations with very limited value addition. The company's profitability metrics are vulnerable to fluctuation in gold prices.

- **Susceptibility of the Caps's operating performance to volatility in gold prices, regulatory changes and intense competition in the gold jewellery industry**

The bullion trading industry is marked by intense competition as there are low entry barriers due to low capital requirement. Bullion trading is regulated by RBI and price of gold is highly volatile and depends on the prices in the international market. Further Gold jewellery retailing is a highly-fragmented segment, with the presence of large organised players and numerous unorganised ones. However, the Acuité believes the industry will remain exposed to regulatory interventions and gold price volatility, which will continue to impact the demand-supply scenario.

Liquidity Position: Adequate

CAPS have adequate liquidity marked by comfortable net cash accruals and moderate working capital management. CAPS reported cash accruals of Rs.2.29-2.81 Cr during FY2018-FY2020 against repayment obligation of Rs. 0.15-0.29 Cr during the same period. The cash accruals of the CAPS are estimated to remain at around Rs.3.00-4.50 Cr during FY2021-FY2023, against 0.15 repayment obligations during same period. Its working capital cycle is efficient as reflected in GCA at 8-14 days during FY2018-FY2020. This led its bank limit utilisation is over 23 per cent for 6 months through September 2020. The current ratio stood comfortable at 1.70 times as on March 31, 2020. Acuité believes that the liquidity of the CAPS is likely to remain adequate over the medium term.

Rating Sensitivities

- Improvement in the scale of operation while improving profitability margins
- Higher-than-expected deterioration in the operating performance and/or a further stretch in the working capital cycle leading to liquidity deterioration

Any Material Covenants

None

Outlook: Stable

Acuité believes that CAPS will maintain 'Stable' outlook in the medium term on account of long track record of operations, experienced management and its diverse customer base. The outlook may be revised to 'positive' if the Company registers higher than expected growth in its revenue and operating profitability, while maintaining the capital structure and working capital cycle. Conversely, the outlook may be revised to 'Negative' if profitability declines sharply, or a significant stretch in working capital cycle or a large debt-funded capital expenditure programme, leading to weak financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	3,218.09	4,444.49
PAT	Rs. Cr.	2.17	1.74
PAT Margin	(%)	0.07	0.04
Total Debt/Tangible Net Worth	Times	0.93	0.79
PBDIT/Interest	Times	2.14	2.12

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

CAPS rating was Issuer not cooperating'; Rating Withdrawn with CRISIL Ratings, which has published through a release dated September 16, 2020. The reason provided by CRISIL Ratings is non-furnishing of information for monitoring of ratings and **withdrawn** its rating on the bank facilities of Caps on the request of the company and after receiving no objection certificate from the bank.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00*	ACUITE BBB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00**	ACUITE BBB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00***	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- / Stable (Assigned)

* BG is Sublimit to CC up to Rs.7.00 Cr, ** GML/WCDL sublimit to CC, and BG sublimit upto Rs.5.00 Cr ***BG is Sublimit to CC up to Rs.5.00 Cr

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in
Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	

About Acuité Ratings & Research:

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