

Press Release

Caps Gold Private Limited

March 04, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.00	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	75.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from **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**'.

The rating upgrade is driven by substantial and sustained improvement in the business risk profile of CAPS witnessed significant improvement operating income of the company registered a Yo-Y growth of ~170 per cent at Rs. 8,718.05 Cr in FY 2021 as against Rs. 3,218.06 Cr in the previous year. The upgrade also factors in the expected improvement in the business performance of CAPS over the medium term driven by favourable demand scenario and expected to register a revenue growth of more than 15 percent in the current fiscal FY2022. The rating also takes cognizance of the improvement in operational metrics supported by its diversified geographical presence, strong brand, favourable product mix with rising revenue and profitability along with vast experience of promoters in bullion trading business. The rating is further supported by its comfortable financial risk profile and efficient working capital management. These rating strengths are partly offset by, Inherent thin margins in gold trading business, volatility in gold prices, inherent regulatory risks, intense competition and fragmented industry structure.

About the Company

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

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

Key Rating Drivers

Strengths

Extensive experience and track record of promoters in bullion trading 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 retailers about 4000+ across India to support the repeated business and volume growth over the years. CAPS's customers in the domestic market include jewellers, traders, bullion dealers, wholesalers, retailers' agents located across the cities in India. CAPS benefits from the strong system, management, customer/supplier tie-ups and infrastructure support from its promoters. 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 1.08 times and 2.20 times as on 31 March, 2021 as against 0.61 times and 1.82 times as on 31 March, 2020. The Net worth stood at Rs. 60.23 Cr as on 31 March, 2021 as against Rs.56.79 Cr as on 31 March, 2020 (includes quasi equity of Rs. 30 Cr). Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 4.38 times and 0.09 times, respectively, in FY2021 vis à vis 2.51 times and 0.10 times, respectively, in FY2020. Its Debt-EBIDTA stood high at 6.16 times in FY2021 as against 4.86 times in FY2020. Acuite 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 6-14 days historically due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele during last 3 years ended with March 31, 2021. The inventory days are 4-12 days and the debtor days are at a day due to all the transactions are cash and carry basis during the last 3 years ended with March 31, 2021. As all the transactions of the company are made against advance payments, the working capital requirement for operations would remain low. However, the company needs funding for advance payment of import duty against the consignment. This results in low reliance on bank lines at about 30 percent over nine months through December 2021. Acuite believes that CAPS operation continues to be efficiently managed supported by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

Intense competition and exposure to regulatory risks

CAPS's gold trading operations remain exposed to uncertainties related to regulatory measures adopted by the GoI through the Director General of Foreign Trade (DGFT) and the Reserve Bank of India (RBI). Revenue and profitability also depend on duty structures, and any adverse change in these can impact the operating performance of CAPS. The bullion trading industry is marked by intense competition as there are low entry barriers due to low capital requirement. The 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. Acuite believes the industry will remain exposed to regulatory interventions and gold price volatility, which will continue to impact the demand-supply scenario.

Inherently thin margins in gold trading business

The company is primarily a trading agent dealing in procurement and distribution of bullion (like gold and silver). Owing to the low value additive nature of the business and intense competition, the operating profit margin of the company remained low and stood at 0.9% in FY2021. Despite the improved in the revenue, CAP's operating profitability low reported at 0.09% in FY21 (FY20: 0.14%; FY19: 0.10%) due to the trading nature of operations with very limited value addition. The company's profitability metrics are vulnerable to fluctuation in gold

prices over the medium term too. Acuité believes that after commencement of refinery unit in FY2023, duty advantage will aid the company in improvement of margins over the medium term.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significantly increase its sales volumes while improving its profitability margins
- Substantial increase in the working capital requirements results in elevated levels of debt

Material covenants

None

Liquidity Position: Adequate

Liquidity of CAPS is adequate marked by moderate cash accruals to its repayment obligations and efficient working capital management. CAPS reported cash accruals of Rs.2.80-5.74 Cr during FY2019-FY2021 against repayment obligation of Rs. 0.15-0.33 Cr during the same period. The cash accruals of the CAPS are estimated to remain at around Rs.4.00-5.50 Cr during FY2022-FY2024, against 0.15-0.30 Cr repayment obligations during same period. Its working capital cycle is efficient as reflected in GCA at 6-14 days during FY2018-FY2020 led its bank limit utilisation is over 30 per cent for 9 months through December 2021. The current ratio stood comfortable at 1.63 times as on March 31, 2021 and it has free cash and bank balance of Rs. 8.69 Cr as on March 31, 2021. Acuité believes that the liquidity of the CAPS is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that CAPS will maintain a 'Stable' outlook over the medium term, owing to its experienced management, long track record of operations and established brand presence. The outlook may be revised to 'Positive' in case the CAPS registers healthy growth in its revenue, while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	8718.05	3218.06
PAT	Rs. Cr.	4.67	2.09
PAT Margin	(%)	0.05	0.06
Total Debt/Tangible Net Worth	Times	1.08	0.61
PBDIT/Interest	Times	4.38	2.52

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Dec 2020	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	9.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB Stable Upgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB Stable Upgraded
ICICI Bank Ltd	Not Applicable	Metal Loan	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB Stable Upgraded

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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