

Press Release

Caps Gold Private Limited

March 30, 2023

Rating Reaffirmed



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

Rating Rationale

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

Rating Rationale

The rating takes into account the improved operating performance and comfortable financial risk profile of CAPS. The operating income of CAPS. has been consistently growing since the last two years ended FY2022. The Company's revenue stood at Rs.10,424.29 Cr in FY2022 as against Rs. 8718.05 Cr in FY2020. In H1FY23 the operating income stood at Rs. 4989 Cr and is expected to generate Rs. 10495-10985 Cr by year end. The operating margins ranged between 0.09-0.14 percent for the last two years ended FY2022. The financial risk profile of CAPS continues to be moderate with comfortable debt protection metrics and low gearing and efficient working capital management. The overall gearing of the Company stood at 0.65 times as on March 31, 2022 as against 1.08 times as on March 31, 2021. The interest coverage ratio stood at 5.19 times in FY2022 as against 4.38 times in FY2021. These rating strengths are partly offset by, Inherently 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 company has remained healthy with comfortable debt protection metrics and low gearing. The net worth of the company stood at Rs.63.77 Cr and Rs.56.79 Cr as on March 31, 2022 and 2021 respectively. The improvement is on account of healthy accretion of net profit in the reserves. The gearing of the company stood at 0.65 times as on March 31, 2022 as against 1.08 times as on March 31, 2021. CAPS's debt protection metrics is healthy marked by- Interest coverage ratio and debt service coverage ratio stood at 5.19 times and 3.91 times as on March 31, 2022 respectively as against 4.38 times and 4.04 times as on March 31, 2021 respectively. TOL/TNW stood at 1.52 times and 2.20 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 2.44 times as on March 31, 2022 as against 6.16 times as on March 31, 2021. Acuite believes that the financial risk profile of the CAPS is expected to healthy over the medium term.

- **Efficient working capital management**

CAPS's working capital management is efficient, with gross current assets (GCA) of 4 to 6 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, 2022. The inventory days are 3-5 days and the debtor days are at a day as the transactions are undertaken on cash and carry basis during the last 3 years ended with March 31, 2022. Further due to this, the reliance on working capital bank lines for operations remain low. The average bank limit utilisation stood at about 37 percent over nine months through January 2023. 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 Govt 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 0.14% in FY2022. Acuité believes that after commencement of refinery unit in FY2024, duty advantage will aid the company in improvement of margins over the medium term.

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

The liquidity profile of the company stood adequate, company is having net cash accruals (NCA) of Rs 9.69 Cr ending FY2022 against its nil repayment long term debt obligations. The cash accruals of the CAPS are estimated to remain at around Rs.11.25-13.33 Cr during FY2023-FY2024, against nil repayment obligations during same period. The working capital cycle of CAPS is efficient on account GCA (Gross Current Asset) days of 4 in FY2022. Unencumbered cash and bank balances stood at Rs. 3.80 Cr as on March 31, 2022. The current ratio of the company stood at 1.37 times as on March 31, 2022. The average bank limits utilization of CAPS is 37 percent for fund based for the past seven months ending January 2023. 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

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	10424.29	8718.05
PAT	Rs. Cr.	8.78	4.67
PAT Margin	(%)	0.08	0.05
Total Debt/Tangible Net Worth	Times	0.65	1.08
PBDIT/Interest	Times	5.19	4.38

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Cash Credit	Long Term	18.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Metal Loan	Long Term	28.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	9.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
22 Dec 2020	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	9.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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