Gillanders Arbuthnot & Co Limited

October 03, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long Term Bank Facilities (Cash Credit)	68.75	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Long Term / Short Term Bank Facilities	19.00	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Revised from CARE BBB; Positive / CARE A3 (Triple B; Outlook: Positive / A Three)
Short Term Bank Facilities	85.21	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Long Term Bank Facilities-(Term Loan)	-	-	Withdrawn
Total Bank Facilities	**172.96 (₹ One Hundred Seventy-Two Crore and Ninety-Six Lakhs Only)**		
Fixed Deposit	25.00 (Reduced from 31.92)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Positive (Triple B; Outlook: Positive)
Total Medium-Term Instruments	**25.00 (₹ Twenty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the Bank Facilities/Instruments of Gillander Arbuthnot & Co. Ltd. (GACL) takes into account the improvement in capital structure and debt protection metrics on account of significant debt reduction during FY22 (refers to the period April 01 to March 31) and current fiscal out of healthy accruals and monetisation of assets including loss making textile unit at Akbarpur. The revision further takes into account the improvement in financial performance over the last few quarters post hiving off the loss-making unit which is expected to drive future profitability.

The ratings also continue to derive strength from experienced promoters along with demonstrated fund support, long and satisfactory track record of the company and diversified business profile which provides buffer against the cyclicality in any one of its businesses to an extent. The ratings, however, continue to be constrained by the susceptibility of profitability to volatility in commodity prices and vagaries of nature, working capital- & labour-intensive operations, moderately high operating cycle, exposure to seasonal nature of industry and Government policy.

CARE Ratings Ltd. has withdrawn the rating(s) assigned to the Long-Term bank Facilities (Term Loan) of Gillander Arbuthnot & Co. Ltd with immediate effect, as the company repaid the aforementioned term loans in full and there is no amount outstanding under the facility as on date.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Total Debt by EBITDA 2 times along with ROCE of more than 10% on a sustained basis
- Improvement in GCA above Rs.35-40 crore on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in adjusted (net off investment in subsidiaries) gearing ratio over 0.55x
- Stretch in working capital cycle of the company beyond 150 days on a consistent basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters along with demonstrated fund support

GACL was incorporated in 1935 and as such has a long track record of operations. It was acquired by the Kolkata-based G.D. Kothari group in late 1960s. Mr A. K. Kothari, Chairman, is the son of Late Mr G. D. Kothari, the founder of the group and has significant business experience. He along with Mr Mahesh Sodhani, MD, is managing the day-to-day affairs of the company.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Apart from GACL, the group has business interest in engineering products, healthcare, etc. through other group companies. GACL enjoys financial flexibility by virtue of it being part of the G.D Kothari group, which will enable it to arrange for financing any shortfalls in accruals for servicing debt obligations, as has been adequately demonstrated in the past.

Diversified business profile

GACL is a multi-divisional entity having presence in textiles, tea, engineering and leasing out property. The company has earned majority of its revenue (~85%-90%) from textile division and tea division. The engineering division contributes revenue in the range of 6%-8%. During FY22 the revenue from tea division has toned down to Rs 181.93 crores from Rs 208.69 crores in previous year, largely on account of reduced capacity with sale of Tengapani Tea estate. The revenue from textile and property remained steady at Rs 154.40 crores (PY Rs 144.00 crores) and Rs 9.46 crores (PY Rs 8.93 crores), while for engineering, the operations remained impacted on account of pandemic during the first two quarters resulting in moderation to Rs 23.11 crores in FY22 from Rs 29.48 crores in FY21.

Improvement in capital structure with substantial debt reduction

The overall gearing ratio has improved from 0.78x as on March 31, 2021 to 0.63x as on March 31, 2022. The total debt of the company reduced from Rs.300.92 crore as on March 31, 2020 to Rs.157.87 crore as on March 31, 2022, funded out of the proceeds from sale of textile unit (Akbarpur) and Tengapani Tea Estate, sale of investments along with generated accruals and reduction in debtor and inventory level. Furthermore, in FY23 (till September 25, 2022) the company has prepaid its debt of Rs.32.28 crore largely funded out of proceeds from sale of land, income tax refund and cash accruals.

Improved financial performance in FY22 and Q1FY23

In FY22, the company sustained is performance with minor de-growth of 6% in income from operations on account of subdued scale in engineering segment and lower volume sales in tea given reduced capacity of available tea after Tengapani Tea Estate sale. Nonetheless the overall profitability has seen healthy increase with PAT of Rs 13.91 crores in FY22 as against -Rs 9.74 crores in FY21. The better profitability is attributed to steady performance across segments, with major contributor as Textile providing an overall PBIT of Rs 15.07 crores (PY -13.97 crores), the same is backed by sale of loss-making unit in FY21 which further supports better overall profitability. Tea division contributed about Rs 12.17 crores (Rs 33.71 crores) at PBIT. The cash profit of the company stood at Rs.22.19 crore in FY22 as compared to Rs 2.20 crores in FY21.

In Q1FY23, the company achieved an operating income of Rs 110.04 crores against Rs 58.99 crores in Q1FY22. Further with both tea and textile division sustaining positive PBIT and healthy non-operating income arising out of sale of land, the company registered a PAT of Rs 15.70 crores (as against Rs 1.88 crores in Q1FY22).

Key Rating Weaknesses

Profitability susceptible to volatility in commodity prices & vagaries of nature

GACL generates around 90% of its gross sales from sale of commodity products (such as yarn, tea). The prices of such products are volatile in nature as it is based on global demand-supply fundamentals. The raw materials used for manufacturing of synthetic yarn are dependent on the prices of crude oil prices which are highly volatile in nature. Further, tea division profitability is exposed to vagaries of nature as the productivity of same is dependent upon weather conditions where the wages is fixed cost in nature. Accordingly, the overall profitability of the company is susceptible to volatility in prices of commodity products.

Working capital intensive nature of operation

The operations of GACL are working capital intensive in nature owing to high working capital required for engineering division. The operating cycle in engineering division tends to be high due to delays in certification of work by clients and release of retention money & receivables. Further, in textile, the company has to maintain inventories and provide credit to its customers entailing high requirement of working capital. Accordingly, the overall operating cycle of the company has remained moderate in the past three years. The operating cycle remained at 144 days in FY22 slightly improved from previous year's 155 days largely on account of steady collection resulting in lower receivables.

Labour intensive nature of operation

GACL's operation is labour intensive in nature due to high dependency on labour for its textile and tea division. The nature of the tea industry makes it highly labour intensive.

Liquidity: Adequate

The average utilization of fund-based limit was around 63% for 12 months ended July 31, 2022. The company has been closing its term loans out of proceeds from sale of investment/loss making business units, thereby improving its financial flexibility. The gross cash accruals are expected at about Rs 28-36 crores annually over the medium and are expected to remain healthy in servicing debt obligations of Rs 40-50 lacs, given majority of the long-term debt has been pre-closed in early FY23. Further being a part of GD Kothari Group, the company will continue to have need based financial flexibility from the group.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Rating Methodology – Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial sector entities

About the Company
GACL was incorporated as a partnership firm by Mr. F.M Gillanders & Mr. C.G Arbuthnot. It was later converted into a limited company in 1935. The company was acquired by Kolkata-based G.D. Kothari group in late 1960's. It has a satisfactory track record of over eight decades. GACL is a diversified, multi-location and multi-product conglomerate and currently, is operating under four business divisions' i.e. textile, tea, engineering & property. Mr. A. K. Kothari, Chairman, is the son of Late Mr. G.D. Kothari, the founder of the group. He, along with Mr. Mahesh Sodhani, MD and other professional team is managing the day-to-day affairs of the company.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	389.93	366.52	110.04
PBILDT	25.90	22.11	9.98
PAT	-9.74	13.91	15.70
Overall gearing (times)	0.78	0.63	NA
Interest coverage (times)	0.82	1.17	2.48

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	1-3 years	25.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	68.75	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing		-	-	-	19.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	85.21	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020

1	Fund-based - LT-Cash Credit	LT	68.75	CARE BBB+; Stable	-	1)CARE BBB; Positive (22-Mar-22) 2)CARE BBB; Stable (30-Sep-21)	1)CARE BBB; Stable (24-Mar-21) 2)CARE BBB; Stable (14-Aug-20)	1)CARE BBB+; Stable (27-Dec-19)
2	Non-fund-based - ST-BG/LC	ST	85.21	CARE A3+	-	1)CARE A3 (22-Mar-22) 2)CARE A3 (30-Sep-21)	1)CARE A3 (24-Mar-21) 2)CARE A3 (14-Aug-20)	1)CARE A3+ (27-Dec-19)
3	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	LT/ST*	19.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Positive / CARE A3 (22-Mar-22) 2)CARE BBB; Stable / CARE A3 (30-Sep-21)	1)CARE BBB; Stable / CARE A3 (24-Mar-21) 2)CARE BBB; Stable / CARE A3 (14-Aug-20)	1)CARE BBB+; Stable / CARE A3+ (27-Dec-19)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Positive (22-Mar-22) 2)CARE BBB; Stable (30-Sep-21)	1)CARE BBB; Stable (24-Mar-21) 2)CARE BBB; Stable (14-Aug-20)	1)CARE BBB+; Stable (27-Dec-19)
5	Fixed Deposit	LT	25.00	CARE BBB+; Stable	1)CARE BBB; Positive (22-Jun-22)	1)CARE BBB (FD); Positive (22-Mar-22) 2)CARE BBB (FD); Stable (30-Sep-21)	1)CARE BBB (FD); Stable (24-Mar-21) 2)CARE BBB (FD); Stable (14-Aug-20)	1)CARE BBB+ (FD); Stable (16-Jan-20) 2)CARE BBB+ (FD); Stable (27-Dec-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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