Gillanders Arbuthnot & Co Limited (Revised)

August 07, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2.00	CARE BBB+; Stable	Assigned
Long Term Bank Facilities	50.00 (Reduced from 68.75)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	52.00 (Enhanced from 19.00)	CARE BBB+; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	53.00 (Reduced from 85.21)	CARE A3+	Reaffirmed
Fixed Deposit	15.00 (Reduced from 25.00)	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the Bank Facilities of Gillanders Arbuthnot & Co Limited (GACL) continues 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 also take into account satisfactory financial performance of the Company in FY23 (refers to the period refers to the period April 1 to March 31) along with debt reduction in FY23 mainly out of proceeds from sale of land and internal accruals. 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, improving though high operating cycle, exposure to seasonal nature of industry and Government policy.

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 ₹35 crore-₹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

Analytical Approach: Standalone

Outlook: Stable

Stable outlook reflects that the entity is likely to benefit from its diversified revenue profile and sustain revenue and profitability in the medium term.

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. 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

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

GACL is a multi-divisional entity having presence in textiles, tea, engineering and leasing out property. The company has earned majority of its revenue (~80%-90%) from textile division and tea division. The engineering division contributes revenue in the range of 6%-10%.
During FY23 the revenue from textile division had slightly toned down to ₹ 153.17 crores from ₹ 154.40 crores in previous year, largely on account of reduced global demand. The revenue from textile and engineering grew at ₹ 217.97 crore (PY ₹ 181.93 crore) and ₹ 40.78 crore (PY ₹ 23.11 crore). The revenue from property income remained largely steady with slight growth to ₹ 9.67 crore in FY23 (PY ₹ 8.94 crore).

Improvement in capital structure with substantial debt reduction
The overall gearing ratio has improved from 0.63x as on March 31, 2022, to 0.39x as on March 31, 2023. The total debt of the company reduced from Rs.300.92 crore as on March 31, 2020, to Rs.104.27 crore as on March 31, 2023, 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 itself the company has repaid long term debt of Rs.33.85 crore along with repayment of fixed deposit of Rs 7.96 crore largely funded out of proceeds from sale of land, income tax refund and cash accruals.

Financial performance for FY23 characterised by growth in topline, albeit moderation in operating margin
The Total operating income (TOI) grew by 14.60% in FY23 over FY22. The key contributor for the growth in revenue remained tea and engineering segments. PBILTD margin declined to 4.73% in FY23 from 6.03% in FY22. The profitability impact largely came from weak textile segment, despite sale of loss-making unit, on account of subdued demand leading to lower capacity utilisation and consequent lower absorption of fixed costs. Also, some impact came from tea segment wherein the input prices of fuel, wages and raw material increased by about 15-20% resulting in slight pressure on profitability. The company had a sale of land situated at Janakipuram Village for Rs 11 crore in FY23 wherein the company earned a non-operating income of Rs 10.64 crore. The overall PAT was reported at Rs 20.39 crore with a GCA of 30.51 crore for FY23.

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 112 days in FY23 slightly improved from previous year's 144 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 April 30, 2023. The financial flexibility of the company has improved with the reduction in debt leading to a better capital structure along sufficient cushion in working capital limit. The company is not likely to take any fixed deposit further and the existing ones are to be repaid by June 2024. GCA is expected to be adequate vis-à-vis debt repayment obligation. Further being a part of GD Kothari Group, the company will continue to have need based financial flexibility from the group.

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company and Industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

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, 2022 (A)	March 31, 2023 (A)
Total operating income	366.52	420.03
PBILDT	22.11	19.86
PAT	13.91	20.40
Overall gearing (times)	0.63	0.39
Interest coverage (times)	1.17	1.48

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results 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		-	-	30-06-2024	15.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	52.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantee		-	-	-	2.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	53.00	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-22)	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)
2	Non-fund-based - ST-BG/LC	ST	53.00	CARE A3+	-	1)CARE A3+ (03-Oct-22)	1)CARE A3 (22-Mar-22) 2)CARE A3 (30-Sep-21)	1)CARE A3 (24-Mar-21) 2)CARE A3 (14-Aug-20)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	52.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (03-Oct-22)	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)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Oct-22)	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)
5	Fixed Deposit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable	1)CARE BBB (FD); Positive	1)CARE BBB (FD); Stable

						(03-Oct-22) 2)CARE BBB; Positive (22-Jun-22)	(22-Mar-22) 2)CARE BBB (FD); Stable (30-Sep-21)	(24-Mar-21) 2)CARE BBB (FD); Stable (14-Aug-20)
6	Non-fund-based - LT-Bank Guarantee	LT	2.00	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Non-fund-based - LT-Bank Guarantee	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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