

## Gillanders Arbuthnot & Co Limited

February 21, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long-term bank facilities	52.00	CARE BBB; Stable	Revised from CARE BBB+; Stable
Long-term / Short-term bank facilities	52.00	CARE BBB; Stable / CARE A3	Revised from CARE BBB+; Stable / CARE A3+
Short-term bank facilities	53.00	CARE A3	Revised from CARE A3+
Fixed Deposit	15.00	CARE BBB; Stable	Revised from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in ratings assigned to the bank facilities and fixed deposit issue of Gillanders Arbuthnot & Co Limited (GACL) take into account the deterioration in financial performance of the company in Q3FY24 both q-o-q and y-o-y basis primarily due to decline in performance of tea and textile division. CARE Ratings expects that the performance will remain subdued in Q4FY24 as well given Q4 being a lean quarter for the tea industry (which is one of the major revenue contributor for the company).

The ratings continue to derive strength from experienced promoters along with demonstrated fund support, long and satisfactory track record of the company, satisfactory capital structure and diversified business profile.

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: Factors likely to lead to rating actions

#### Positive factors

- Increase in total operating income above Rs.400 crore with PBILDT margin above 7% on a sustained basis.
- Improvement in gross cash accruals (GCA) above Rs.30 crore on a sustained basis.

#### Negative factors

- Stretch in working capital cycle of the company beyond 150 days on a consistent basis.
- Deterioration in interest coverage ratio below 1.3x on a sustained 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 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:** 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%. In 9MFY24, the revenue from all the segments witnessed decline, largely on account of reduced demand. In tea division, the reduction in revenue is also on account of decline in realisation. Revenue from property remained similar at Rs.7.91 crore in 9MFY24 (Rs.7.56 crore in 9MFY23).

**Satisfactory capital structure:** The overall gearing ratio stood 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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.

### Key weaknesses

**Deterioration in financial performance of the company in 9MFY24:** The total operating income (TOI) of the company witnessed de-growth of 22% in 9MFY24 compared with 9MFY23 with decline in revenue from almost all the divisions. PBILDT margin also witnessed significant decline from 11.94% in 9MFY23 to 6.96% in 9MFY24 given the decline in segment PBIT margin from both tea and textile division in Q3FY24. With decline in PBILDT margin, PAT margin also witnessed decline in 9MFY24. The company earned GCA of Rs.14 crore in 9MFY24. CARE Ratings expects that the performance will remain subdued in Q4FY24 as well given Q4 being a lean quarter for the tea industry (which is one of the major revenue contributor for the company). In FY23, the TOI had grown by 14.60% compared with FY22. The key contributor for the growth in revenue remained tea and engineering segments. PBILDT 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 sold a land situated at Janakipuram Village for Rs 11 crore in FY23 wherein the company earned a non-operating income of Rs 10.64 crore.

**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. Furthermore, 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. Furthermore, 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 fund-based working capital limit utilization stood at around 70%-75% during the last 12 months ended January 2024. The company is not likely to take any fixed deposit further and the existing ones are to be repaid by June 2024. In FY25, the company has repayment obligation of around Rs.6 crore against which the company is expected to generate sufficient cash accruals. Further, being a part of the GD Kothari Group, the company will continue to have need based financial flexibility from the group.

### Applicable criteria

[Policy on default recognition](#)

[Rating outlook and Credit watch](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Liquidity analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Short term instruments](#)

### 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)	9MFY24 (UA)
Total operating income	366.52	420.03	272.50
PBILDT	22.11	19.86	18.97
PAT	13.91	20.40	6.50
Overall gearing (times)	0.63	0.39	NA
Interest coverage (times)	1.17	1.48	2.42

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 last three years:** Please refer Annexure-2

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	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 (07-Aug-23)	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+ (07-Aug-23)	1)CARE A3+ (03-Oct-22)	1)CARE A3 (22-Mar-22)	1)CARE A3 (24-Mar-21)

							2)CARE A3 (30-Sep-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+ (07-Aug-23)	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 (07-Aug-23)	1)CARE BBB+; Stable (03-Oct-22) 2)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)
6	Non-fund-based - LT-Bank Guarantee	LT	2.00	CARE BBB; Stable	1)CARE BBB+; Stable (07-Aug-23)	-	-	-

\*Long term/Short term.

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

**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](mailto:care@careedge.in) for any clarifications.

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