

## Gill and Company Private Limited

September 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	140.00	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of the rating assigned to bank facilities of Gill and Company Private Limited (GCPL) factors in improvement in total operating income (TOI) in FY24 (FY refers to April 01 to March 31), improvement in profitability margins, promoters' extensive experience in the cotton trading industry, strong relationships with customers and suppliers and broad geographic presence, and prudent risk mitigation policies, and improved liquidity position as on August 31, 2024. However, rating strengths are tempered by a shift in their financial risk profile marked by an increase in overall debt levels and gearing. The rating remains constrained by operating margins susceptible to cotton price fluctuations, highly competitive cotton trading sector, the working capital intensive operations, and dependence on a single product.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Scaling up operations over ₹800 crore and improving profit before interest, lease rentals, depreciation and tax (PBILDT) margin on a sustained basis.
- Overall gearing below unity on a sustained basis.
- Operating cycle less than 60 days on a sustained basis.

#### Negative factors

- Reporting total operating income (TOI) below ₹500 crore and PBILDT margin below 1.00% on a sustained basis.
- Deteriorating current ratio below 1.20x on a sustained basis.
- Deteriorating operating cycle to over 90 days on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

The 'stable' outlook reflects that the company is expected to sustain its operational performance and derive benefits from promoters' experience in the cotton industry in the medium term.

### Detailed description of key rating drivers:

#### Key strengths

##### Experience promoters and established track record

GCPL has been involved in the cotton trading industry for over 130 years and is promoted and managed by the Shah family. GCPL is led by Jayant Shah (Managing Director), Mohit Shah (Director), and Rishabh Shah (Director). Established in 1886 as a partnership firm, the company evolved as one of India's oldest and reputable cotton trading merchants. GCPL has built a strong reputation and a proven track record of success. Its long-standing presence in the cotton trading industry has made it a preferred vendor for domestic textile mills and international buyers. The company has an established network of cotton suppliers in the country's prime cotton growing regions .

#### Diversified supplier base

In FY24, ~37% (PY: 46%) of total purchases were sourced from top 10 suppliers. The diversified supplier base is also evident from no single supplier constituting over 10% of the cotton supply in FY24. Thus, the diversified supplier base ensures reducing risk associated with depending on a single supplier.

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

### **Risk management measures to mitigate commodity price risk and forex risk**

The company primarily exports cotton and is susceptible to regulatory restrictions on cotton exports influenced by domestic demand-supply dynamics. GCPL purchases cotton largely on a back-to-back basis and hedges commodity risk in case of inventory buildup. GCPL books forward contracts when an order is placed, mitigating forex risk. It avails Packing Credit in Foreign Currency (PCFC) limits in US Dollars from banks against export orders. These limits give benefit of natural hedge against payments received in US Dollars from customers. To mitigate counterparty risk, GCPL's export sales are largely backed by irrevocable letters of credit (LC), based on cash-against-documents, or require a 10% advance payment with remaining 90% against shipping documents, and 100% advance payment in some case.

### **Improvement in revenue and profitability margins in FY24**

In FY24, GCPL recorded TOI of ₹427.65 crore compared to ₹109.63 crore in FY23, driven by a recovery in global demand and the international economy. Due to sustained demand in recent months (5MFY24), the company registered sales of ₹165.72 crore. During 5MFY25, it has also started import of cotton and sell domestically on a smaller scale which accounts for ₹18.46 crore in revenue. Operating in the trading industry exposes participants to volatility in margins and overall financial performance. GCPL's cost of traded goods accounted for significant part of its total cost of sales in FY24. There was an improvement of 152 bps in PBILDT margins reaching 1.26% in FY24 compared to loss of 0.26% in FY23. This improvement is attributed to the skill involved in selecting trades, greater share of export revenue, and dealing in differentiated and specialised variety of cotton such as organic and sustainable cotton. Profit after tax (PAT) margins remained largely stable in FY24 at 0.63% compared to 0.73% in FY23.

### **Key weaknesses**

#### **Customer concentration and geographical concentration risk despite long-standing association with customers**

In FY24, GCPL earned majority revenues from export mainly to Vietnam, Bangladesh, China, and Thailand. This concentration of export revenue exposes the company to geographical concentration risk. In FY24, the company earned ~60% of its TOI from top three customers. However, comfort is drawn from its long-term relationships with these customers, which helps the company to secure repeat orders.

#### **Moderation in capital structure and financial risk profile**

The company mainly depends on bank borrowings for meeting working capital demands. The company makes use of its working capital facilities in line with scale of operations. As on March 31, 2024, there is an increase in total debt compared to March 31, 2023, to ₹101.94 crore against ₹1.32 crore, largely pertaining to working capital facilities, in line with increased scale of operation and utilisation of bank facilities in comparison to previous year. Increase in debt has impacted GCPL's overall gearing level to 1.86x as at the end of FY24 compared to 0.03x as at the end of FY23.

#### **Working capital intensive operations**

Operating cycle largely remained stable in FY24 at 61 days compared to 64 days in FY23. Average receivables collection period elongated to 44 days as on March 31, 2024, compared to 34 days as on March 31, 2023, considering higher receivables position. As a result of increased receivables and higher inventory holding, GCPL reported negative cash flow from operations (CFO) of ₹121.68 crore as on March 31, 2024.

#### **Operating in a highly competitive agro-commodity business**

GCPL operates in an intensely competitive agro-commodity business marked by large number of participants. The industry is fragmented due to weak barriers to entry and relatively low technical and capital requirements, which affect pricing power of participants.

#### **Liquidity: Adequate**

Liquidity is characterised by adequate gross cash accruals of ₹3.39 crore in FY24 against repayment obligation of ₹0.40 crore in FY25, unutilised bank limits, and cash and bank balance of ₹1.57 crore and liquid investments in shares and mutual funds of ₹25.24 crore as on August 31, 2024. Further comfort is drawn from low utilisation of working capital facilities of ₹140 crore.

### **Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services	Trading & distributors

GCPL was established in 1886 by a British National – H Gill, in partnership with Khengar Thobhan and Meghji Thobhan. The company acted as an agent for purchase and sale of cotton in the domestic market and played a leading role in the import and export of cotton from overseas. Currently, the company is mainly into export of Indian raw cotton in fully pressed bale form. At present, the company is owned and managed by the Shah family, with Jayant B Shah (Managing Director), Mohit D Shah (Director), and Rishabh J Shah (Director).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY25(UA)
Total operating income	109.63	427.65	165.73
PBILDT	-0.28	5.39	
PAT	0.80	2.71	
Overall gearing (times)	0.03	1.86	
Interest coverage (times)	-0.31	1.09	

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument:** Annexure-3

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

**Lender details:** Annexure-5

### 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 and Rating Outlook
Fund-based - LT-EPC/PSC		-	-	-	140.00	CARE BBB-; Stable

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-EPC/PSC	LT	140.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Aug-23)	1)CARE BBB-; Stable (22-Aug-22)	1)CARE BBB-; Stable (02-Dec-21)

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated facilities:** Not Available**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-EPC/PSC	Simple

**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:Mradul.Mishra@careedge.in">Mradul.Mishra@careedge.in</a>	<b>Analytical Contacts</b>  Akhil Goyal Director <b>CARE Ratings Limited</b> Phone: 022-67543590 E-mail: <a href="mailto:Akhil.Goyal@careedge.in">Akhil.Goyal@careedge.in</a>
<b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3444 E-mail: <a href="mailto:Ankur.Sachdeva@careedge.in">Ankur.Sachdeva@careedge.in</a>	Darshan Shah Assistant Director <b>CARE Ratings Limited</b> Phone: 022-67543408 E-mail: <a href="mailto:Darshan.Shah@careedge.in">Darshan.Shah@careedge.in</a>
	Rajdeep Jain Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Rajdeep.Jain@careedge.in">Rajdeep.Jain@careedge.in</a>

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