Gillanders Arbuthnot & Co Limited

January 02, 2025

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	65.25 (Enhanced from 52.00)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	65.00 (Enhanced from 52.00)	CARE BBB; Stable / CARE A3	Reaffirmed
Short-term bank facilities	59.75 (Enhanced from 53.00)	CARE A3	Reaffirmed
Fixed Deposit	0.05 (Reduced from 15.00)	CARE BBB; Stable	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and fixed deposit issue of Gillanders Arbuthnot & Co Limited (GACL) take into account the improvement in financial performance in H1FY25 on y-o-y basis after witnessing decline in FY24 (refers to the period April 1 to March 31) which was already envisaged. The improvement in performance is backed by healthy profitability reported in the tea division leading to significant improvement in the overall profitability of the company. Textile division continued to report negative PBIT margin, largely owing to lower realisations amidst reduced demand, however in Q2FY25, the company has recorded a positive PBIT. The engineering division (MICCO) recorded almost 127% y-o-y growth in revenue in H1FY25, though margins recorded moderations owing to increase in expenses. However, with a healthy order book in hand, this segment is expected to become a significant contributor to the overall revenue & profitability in the current fiscal. Apart from these three, the company also generates rental income from leasing out the Gillander house and profitability from the same, continues to remain stable.

The ratings continue to derive strength from experienced promoters along with demonstrated fund support, diversified revenue profile and satisfactory capital structure.

The ratings, however, continue to be constrained by the susceptibility of profitability to volatility in commodity prices & vagaries of nature, working capital & labour-intensive operations and 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 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 and CEO, 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 of property. The company earns majority of its revenue (~80%-90%) from tea and textile division. The engineering division contributes revenue in the range of 7% to 12%, followed by leasing of property. During FY24, apart from the MICCO division,

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

tea & textile divisions reported lower PBIT margins owing to lower demand and a dent on realisations, whilst the PBIT margins for the property segment, recorded moderation owing to increase in expenses towards property maintenance, when compared with FY23. In H1FY25, tea recorded PBIT margin of 18.83% as against 13.46% in H1FY24, whilst the other divisions recorded moderations. Any significant impact on the profitability of tea or textiles, significantly impacts the overall profitability of the company.

Modest performance in FY24 albeit y-o-y improvement in H1FY25: The company's financial performance, as envisaged, recorded a significant moderation in FY24, wherein the company reported a negative PBILDT margin of 0.31% as against 4.93% in FY23. The total operating income also recorded significant degrowth from Rs 420.03 crore in FY23 to Rs 329.71 crore in FY24 due to dip in performance of its major divisions like Tea and Textile, which recorded a degrowth in revenue of around 17.57% and 14.61%, respectively and reported lower PBIT margins. The deterioration led to the company reporting cash loss of Rs.6.34 crore in FY24. The cash loss and shortfall in repayment was met out of money realised from debtors.

The tea industry was impacted during FY24 owing to lower prices amidst demand slowdown, and rising input costs which made a significant dent in the overall profitability of the tea companies. However, in H1FY25, the tea prices have recorded significant jump, owing to decline in productions across tea estates, resulting from inclement weather conditions. This led to improvement in the financial performance of GACL with company earning PBILDT margin of 11.82% in H1FY25 as compared to 9.55% in H1FY24. Furthermore, revenue from MICCO division also witnessed growth in H1FY25 backed by execution of existing orders in hand. As on October 31, 2024, the company had an order book of Rs.228 crore, execution of which would lead to higher revenue and profitability for the company going forward.

Satisfactory capital structure: The overall gearing ratio stood improved from 0.39x as on March 31, 2023, to 0.35x as on March 31, 2024. The total debt of the company reduced from Rs.300.92 crore as on March 31, 2020, to Rs 88.70 crore as on March 31, 2024, 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. Going forward with no major capex planned, the capital structure is expected to remain satisfactory. With company incurring cash loss in FY24, debt protection metrics witnessed moderation in FY24. However, the same has improved in H1FY25 and is expected to improve further during the projected period.

Key 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. Furthermore, tea division profitability is exposed to vagaries of nature as the productivity of the 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 the engineering division, wherein the company has its money stuck in the form of retention which ranges between 10% to 15% of the billed amount and the same is released post completion of the construction, on a milestone basis. The company also has to advance bank guarantees in the form of mobilisation advances, performance guarantees and security deposits. The operating cycle in engineering division thus is characterised by higher collection days.
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 of the company remained high at 119 days in FY24 up from 112 days in FY23. The inventory for tea industry being seasonal in nature varies from time to time depending upon the season of harvest and sowing.

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 liquidity profile of the company is adequate marked by company earning GCA of Rs.19.58 crores vis-à-vis debt repayment obligation of Rs. 5.40 crores in H1FY25. With repayment of the fixed deposit obligation, the company is left with negligible repayment obligations going ahead. In FY24, the company incurred cash loss of Rs.6.34 crore and had debt repayment obligation of Rs.8.67 crore. The cash loss and shortfall in repayment was met out of money realised from debtors. The average utilization of fund-based limit stood at around 63% during the last 12 months period ended October 2024, and the month end average utilisation of non-fund-based bank lines stood at 86.87% for the last 12 months ending October 2024. 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.

Environment, social, and governance (ESG) risks

The company has taken steps for conservation of energy like conventional tube lights and vapour lamps which are being replaced by the energy efficient LED lights and old motors are replaced with new ultra-high efficiency motors to save energy. The company is undertaking timely replacements of power capacitor and equipment for achieving ideal power factor in the Tea Estates and realigning the process to conserve energy and be energy efficient.

Though, the company has a CSR committee in place, however, the company did not have any obligation towards CSR in FY24 since the average net profit of the company during the last three financial years was negative.

No penalties or strictures have been imposed on the company by any Stock Exchange or SEBI or any Statutory Authority on any matter related to capital markets during the last three financial years. A risk management policy is in place for the company and 50% of the members on the Board are Independent.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

GACL was incorporated as a partnership firm by F.M Gillanders & 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. A. K. Kothari, Chairman, is the son of Late G.D. Kothari, the founder of the group. He, along with Mahesh Sodhani, MD and other professional team is managing the day-to-day affairs of the company.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	420.03	329.71	202.28
PBILDT	19.86	-1.02	23.90
PAT	20.40	-16.53	15.32
Overall gearing (times)	0.39	0.35	0.32
Interest coverage (times)	1.48	-0.11	5.66

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 / facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fixed Deposit		-	-	June 30, 2024	0.05*	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	43.25	CARE BBB; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	65.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT-Bank Guarantee		-	-	-	22.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	59.75	CARE A3

*The balance outstanding, remains unclaimed as on date.

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-Cash Credit	LT	43.25	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Feb-24) 2)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)
2	Non-fund-based - ST-BG/LC	ST	59.75	CARE A3	-	1)CARE A3 (21-Feb-24) 2)CARE A3+ (07-Aug-23)	1)CARE A3+ (03-Oct-22)	1)CARE A3 (22-Mar-22) 2)CARE A3 (30-Sep-21)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	65.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (21-Feb-24) 2)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)
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)
5	Fixed Deposit	LT	0.05	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Feb-24) 2)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)
6	Non-fund-based - LT-Bank Guarantee	LT	22.00	CARE BBB; Stable	-	1)CARE BBB; Stable (21-Feb-24) 2)CARE BBB+; Stable (07-Aug-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable

Annexure-4: Complexity level of 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 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 for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-33-4018 1631 E-mail: arindam.saha@careedge.in Kamal Mahipal Assistant Director **CARE Ratings Limited** Phone: +91-33-4018 1628 E-mail: kamal.mahipal@careedge.in Ghanshyam Kedia Lead Analyst **CARE Ratings Limited** E-mail: G.Kedia@careedge.in

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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in