Gillanders Arbuthnot & Co Limited

March 22, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	112.69	CARE BBB; Positive (Triple B; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	19.00	CARE BBB; Positive / CARE A3 (Triple B; Outlook: Positive/ A Three)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	85.21	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**216.90 (Rs. Two Hundred Sixteen Crore and Ninety Lakhs Only)**		
Fixed Deposit	31.92	CARE BBB (FD); Positive [Triple B (Fixed Deposit); Outlook: Positive]	Reaffirmed; Outlook revised from Stable
Total Medium Term Instruments	**31.92 (Rs. Thirty-One Crore and Ninety-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities and Instruments of Gillanders Arbuthnot & Company 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. The ratings further take into account improvement in capital structure as on March 31, 2021 and September 30, 2021 with significant debt reduction out of proceeds from sale of one of tea estates and a loss-making textile unit and improved financial performance in 9MFY22. 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 and low debt service coverage indicator.

Rating Sensitivities

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

- Increase in turnover of Rs.500 crore coupled with improvement in PBILDT margin of the company over 10% and GCA level on a sustained basis leading to improvement in debt service coverage ratio.

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

- Deterioration in gearing ratio over 1.50x on a sustained basis
- Stretch in working capital cycle of the company beyond 150 days on a consistent basis

Outlook: Positive

The outlook has been revised to Positive from Stable on expectation of sustained improvement in financial performance due to the sale of loss making textile unit and saving in interest cost through significant debt reduction. The outlook may be revised to Stable if the company is not able to sustain improvement in profitability and debt protection metrics as envisaged.

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

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 8%-12%. During FY21 revenue from textile and engineering division fell sharply due to the impact of pandemic and

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

also because of loss making textile unit. Although the quantum of tea sold fell in FY21, the total revenue was relatively stable because of higher tea prices. As a result, the contribution of tea division increased sharply because of lower income from other divisions. The diversified business model thus helps the company in mitigating downswing in any one sector.

Improvement in capital structure with substantial debt reduction

The overall gearing ratio has improved from 1.21x as on March 31, 2020 to 0.78x as on March 31, 2021 and further to 0.63x as on September 30, 2021 due to reduction in borrowings. Further, total debt of the company reduced from Rs.300 crore as on March 31, 2020 to Rs.184 crore as on March 31, 2021, funded out of the proceeds from sale of textile unit (Akbarpur) and Tengapani Tea Estate and reduction in debtor and inventory level. The company has further reduced the total debt to Rs.154.29 crore as on February 28, 2022.

Improvement in financial performance in 9MFY22

GACL's financial performance remained weak in FY21. The company continued to incur net loss of Rs.9.74 crore in FY21 vis-à-vis net loss of Rs.17.80 crore in FY20. GCA stood low at Rs.2.20 crore in FY21 (cash loss of Rs.2.11 crore in FY20).
However, the financial performance of the company has improved in 9MFY22. The company achieved TOI of Rs.301.36 crore in 9MFY22 vis-a`-vis Rs.301.80 crore in 9MFY21. However, the PBILDT margin has improved substantially from 7.83% in 9MFY21 to 16.13% in 9MFY22. The increase in profit is mainly attributable to improved performance from textile division and due to disposal of its loss making unit in Q4FY21. The company has also reduced its debt level in Q4FY21 out of the proceeds of the units sold which has led to significant decline in the finance cost thereby leading to higher PBT of Rs.31.16 crore in 9MFY22 as against loss of Rs.7.68 crore in 9MFY21. The company earned GCA of Rs.35.72 crore in 9MFY22.
GACL has a 100% step down subsidiary, Naming'omba Tea Estates Limited (NTEL), engaged in manufacturing of Tea and Macadamia nuts. The financial performance of NTEL has also improved in 9MFY22 after witnessing moderation in FY21 on account of deterioration in sales volume due to the pandemic which affected the exports significantly.

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 increased to 155 days in FY21 mainly due to increase in average collection period on account of decline in turnover coupled with increase in inventory days. However, the realization in Retention money of engineering division improved in FY21 and 9MFY22 vis-à-vis FY20 which resulted in lower working capital borrowings of the company. Also, the debtors with ageing more than 6 months reduced by almost 50% in FY21.

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

Liquidity is supported by recovery of old claims and receivables of MICCO division in current year. Debt level of the company has reduced substantially (Rs.154.29 crore as on February 28, 2022). As articulated by the banker, the average utilization of working capital limits is around 80% during 12 months ended February 28, 2022. The current ratio stood at 1.15 times as on September 30, 2021.

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
Consolidation & Factoring Linkages in Ratings
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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	625.83	394.95	301.36
PBILDT	25.36	30.92	49.66
PAT	-17.80	-9.74	28.95
Overall gearing (times)	1.21	0.78	NA
Interest coverage (times)	0.60	0.98	3.46

A: Audited; UA: Unaudited; NA: Not 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	68.75	CARE BBB; Positive
Non-fund-based - ST-BG/LC		-	-	-	85.21	CARE A3
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing		-	-	-	19.00	CARE BBB; Positive / CARE A3
Fund-based - LT-Term Loan		-	-	September 2026	43.94	CARE BBB; Positive
Fixed Deposit		-	-	March 2023	31.92	CARE BBB (FD); Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	68.75	CARE BBB; Positive	1)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)	1)CARE BBB+; Stable (27-Nov-18)
2	Non-fund-based - ST-BG/LC	ST	85.21	CARE A3	1)CARE A3 (30-Sep-21)	1)CARE A3 (24-Mar-21) 2)CARE A3 (14-Aug-20)	1)CARE A3+ (27-Dec-19)	1)CARE A3+ (27-Nov-18)
3	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	LT/ST*	19.00	CARE BBB; Positive / CARE A3	1)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)	1)CARE BBB+; Stable / CARE A3+ (27-Nov-18)
4	Fund-based - LT-Term Loan	LT	43.94	CARE BBB; Positive	1)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)	1)CARE BBB+; Stable (27-Nov-18)
5	Fixed Deposit	LT	31.92	CARE BBB (FD); Positive	1)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)	1)CARE BBB+ (FD); Stable (27-Nov-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: CARE Ratings Ltd. 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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