Gillanders Arbuthnot & Company Limited

March 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings1	Rating Action
Long-term Bank Facilities	**129.25 (Reduced from 207.30)**	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	**19.00 (Reduced from 50.80)**	**CARE BBB; Stable / CARE A3 (Triple B ; Outlook: Stable/ A Three)**	**Reaffirmed**
Short-term Bank Facilities	**88.71 (Reduced from 149.19)**	**CARE A3 (A Three)**	**Reaffirmed**
Total	**236.96 (Rs. Two Hundred Thirty-Six Crore and Ninety-Six Lakhs Only)**		
Fixed Deposit Programme	**31.92 (Reduced from 39.20)**	**CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]**	**Reaffirmed**

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 promoters along with demonstrated fund support, long and satisfactory track record of the company, diversified business profile and satisfactory capital structure. The ratings also factor in substantial debt reduction in current year out of proceeds from sale of tea estates and a loss-making textile unit. 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 the weak financial performance of the company in FY20 (refers to the period April 01 to March 31) and 9MFY21 due to weak performance of textile division.

Rating Sensitivities

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

- Improvement in PBILDT margin of the company over 10% coupled with improvement in textile division profitability on a sustained basis as ~50% of the revenue is from the said segment.
- Improvement in GCA above Rs.25 crore on a sustained basis.

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

- Deterioration in gearing ratio over 1.40x on a sustained basis.
- Stretch in working capital cycle of the company beyond 130 days on a consistent basis
- Deterioration in PBILDT margin below 6% on a sustained basis and inability to improve the performance of textile division.

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 1960's. 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. Further, the promoters/ group companies have demonstrated fund support by subscribing to preference shares (Rs.12.10 crore) in FY17. 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 multidivisional entity engaged in diverse businesses such as textiles, engineering, tea and leasing out property. Majority of the revenue of the company (~52%-56%) is from textile division and ~32%-35% from tea division. The engineering division contributes revenue in the range of 10%-12%. The diversified nature of operations provides resilience to GACL in times of slowdown in particular sector.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Satisfactory capital structure coupled with substantial debt reduction in current year

The overall gearing ratio has improved from 1.24x as on March 31, 2019 to 1.21x as on March 31, 2020 due to reduction in working capital borrowings of the company. The capital structure improved despite depletion in reserves due to loss reported in FY20. The debt equity ratio, however, moderated to 0.50x as on March 31, 2020 vis-à-vis 0.47x as on March 31, 2019 due to availment a new LRD loan.

In Q1FY21, GACL has released the Standby Letter of Credit extended to Gillanders Holding (Mauritius) Ltd, for acquiring 100% stake in Group Developments Ltd (GDL) (Now Naming'omba Tea Estates Limited; after implementation of amalgamation scheme dated December 18, 2018, the name of GDL was changed to NTEL) in Malawi, Africa, which is engaged in tea plantation since 1931 covering an area of 4,500 hectares of freehold land. With the said release, GACL's liability to the tune of Rs.50.76 crore has been extinguished. Further, total debt of the company reduced from Rs.300 crore as on March 31, 2020 to Rs.188 crore as on February 02, 2021, funded out of the proceeds from sale of tea estates and loss-making textile unit.

The company sold its Jutlibari Tea Estate in Assam in Q4FY20 and textile unit at Akbarpur, Ludhiana in Q3FY21.

Key Rating Weaknesses

Weak financial performance in FY20 and 9MFY21 along with moderate order book position

GACL's revenue from operations declined by 12% in FY20 over FY19 mainly because of decline in revenue in textile division. Consequently, the PBILDT margin of the company also declined to 4.76% in FY20 vis-a-vis 7.55% in FY19 due to under performance in textile division. The PBILDT interest coverage also moderated and stood at 0.71x as at March 31, 2020 vis-à-vis 1.20x as on March 31, 2019. The company reported overall loss of Rs.17.80 crore in FY20 vis-à-vis Rs.8.80 crore in FY19. As a result, company reported cash loss of Rs.2.11 crore in FY20 against cash profit of Rs.9.77 crore in FY19.

In 9MFY21 (unaudited), the company reported de-growth of 40% in income from operations on account of de-growth of 59% and 60% in revenue from textile division and engineering division respectively despite substantial profit in tea division in Q2FY21. However, with substantial profit in tea division of Rs.46.67 crore in Q2FY21 on account of improvement in weather condition and crop yield, the overall operating profit of the company stood at Rs.23 crore in 9MFY21 as against operating profit of Rs.43 crore in 9MFY20. The loss of the company stood at Rs.7.69 crore in 9MFY21. The company incurred exceptional loss of Rs.14 crore in Q3FY21 on account of sale of its textile division. The cash profit of the company stood at Rs.2 crore in 9MFY21.

In MICCO division, till FY20, the company executed orders of Rs.74.67 crore. The new order book in 9MFY21 was around Rs.56.69 crore.

Moderation in financial performance of foreign subsidiary in FY20

In FY20, Naming'omba Tea Estates Limited (NTEL), a 100% step down subsidiary of GACL and engaged in manufacturing of Tea and Macadamia nuts reported revenue of Rs.43.04 crore with PBDILT of Rs.4.63 crore as against revenue of Rs.44.81 crore and PBDILT of Rs.14.19 crore in FY19. The decline in operating income in FY20 was on account of deterioration in sales realization from 1600 USD/tonne in FY19 to 1120 USD/tonne in FY20 coupled with increase in cost of raw material and selling expenses. Consequently, the company reported loss in FY20 of Rs.3 crore vis-a-vis PAT of Rs.4 crore in FY19.

The overall gearing of the company remained at the same level at 0.44x as on March 31, 2020 and March 31, 2019. The company repaid Rs.6 crore of term loan and Rs.27 crore of unsecured loan from GMHL out of infusion of funds from new term loan of around Rs.43 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. 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 stood at same level at 114 days in FY20 as FY19. The company has been making efforts to realize its retention money.

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.

Industry Update

Textile

Cotton yarn output fell by 4.7% to 4,014.6 thousand tonnes in the year FY20. Cotton yarn exports fell by a substantial 23.9% to 959 thousand tonnes during FY20. A sharp 48.1% fall in cotton yarn exports to China (accounting for about 35% of the total cotton yarn exports) affected the overall outbound shipments. Higher cotton (raw material) prices in India due to increase in MSP has raised the cost of production for spinners making it difficult for them to compete in the international market thus affecting exports. Also, lower cotton production in India during current year supported higher domestic prices. All these factors impacted the export unit realisation of India's cotton yarn as the realisations declined by 5.2% y-o-y to Rs.205 per kg during the period April 2019-March 2020. The synthetic spinning mills also faced a crisis as the import of synthetic yarn increased in FY20 vis-à-vis FY19. Weak international demand for cotton yarn due to Covid-19 disruptions also had an impact on its exports during the period March-May 2020 where the outbound shipments declined in double-digits in the range of 24%-80%. Going ahead, improvement in cotton yarn production can be expected on sequential basis backed by various unlock guidelines in the domestic market. The output however is expected to decline by around 18%-20% on a yearly basis as demand will take time to reach pre Covid-19 level.

Tea Industry

India is one of the largest tea producers in the world, although over 70% of its tea is consumed within India itself. The Indian tea industry has grown to own many global tea brands and has evolved into one of the most technologically equipped tea industries in the world. Owing to Covid 19 pandemic and torrential rains in main tea producing areas in the north, tea prices rose as production plunged. Tea production fell by 26% in the June quarter after collapsing by 54% and 28% in April and May respectively, as lockdown was implemented in the country by the government. A combination of increased demand by consumers stuck at home due to the lockdowns and the bad weather coupled with lower supply pushed up the tea prices which had so far been depressed by oversupply. However, international tea prices are expected to remain soft, primarily because of healthy Kenyan tea production as the impact of Covid-19 on the country was minimal. Indian tea industry is essentially a price taker in the international market and hence global supply-demand dynamics have a bearing on the domestic prices.

Liquidity: Adequate

In FY20 the company had a debt repayment obligation of Rs.26.65 crore (including repayment of fixed deposits of Rs.10.48 crore). Though there was cash loss in FY20, GACL serviced the debt obligation by availing LRD loan of Rs.17.85 crore, proceeds from rollover of FD and balance out of proceeds from sale of investment and MF. The current ratio is moderate at 1.00x as on March 31, 2020. Further, the debt repayment (including pre-payments) for FY21 is being met out of sale proceeds of assets/business units. The company has unutilized line of credit to provide liquidity support to meet any shortfall in case operational cash flows are insufficient for the same. GACL has free cash & bank balance of Rs.16.57 crore as on March 31, 2020 and Rs.13.63 crore as on December 31, 2020. Further GACL opted for moratorium of principal and interest payment till August 31, 2020 under RBI COVID-19 package scheme.

Analytical approach: Standalone factoring in linkage with subsidiaries.

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- Standalone (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	715.57	630.50
PBILDT	54.02	30.03
PAT	(8.80)	(17.80)
Overall gearing (times)	1.24	1.21
Interest coverage (times)	1.20	0.71

A: Audited

Status of non-cooperation with previous CRA:

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	-	-	-	-	78.75	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	88.71	CARE A3
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	-	19.00	CARE BBB; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	-	September 2026	50.50	CARE BBB; Stable
Fixed Deposit	-	-	-	March-2023	31.92	CARE BBB (FD); Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	78.75	CARE BBB; Stable	1)CARE BBB; Stable (14-Aug-20)	1)CARE BBB+; Stable (27-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)	1)CARE BBB+; Negative (08-Jan-18) 2)CARE BBB+; Negative (25-May-17)
2.	Non-fund-based - ST-BG/LC	ST	88.71	CARE A3	1)CARE A3 (14-Aug-20)	1)CARE A3+ (27-Dec-19)	1)CARE A3+ (27-Nov-18)	1)CARE A3+ (08-Jan-18) 2)CARE A3+ (25-May-17)
3.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	19.00	CARE BBB; Stable / CARE A3	1)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)	1)CARE BBB+; Negative / CARE A3+ (08-Jan-18) 2)CARE BBB+; Negative / CARE A3+ (25-May-17)
4.	Fund-based - LT-Term Loan	LT	50.50	CARE BBB; Stable	1)CARE BBB; Stable (14-Aug-20)	1)CARE BBB+; Stable (27-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)	1)CARE BBB+; Negative (08-Jan-18) 2)CARE BBB+; Negative (25-May-17)
5.	Fixed Deposit	LT	31.92	CARE BBB (FD); Stable	1)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)	1)CARE BBB+ (FD); Negative (08-Jan-18) 2)CARE BBB+ (FD); Negative (25-May-17)

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 the 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-Bills discounting/ Bills purchasing	Simple
5.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. – +91-22-68374424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Richa Bagaria
Contact no. – 033-40181653
Email ID- richa.jain@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no. : 033-40181607
Email ID - lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**