

**Gillanders Arbuthnot & Company Limited**

January 16, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Fixed Deposit Programme	39.20 (reduced from 43.00)	<b>CARE BBB+ (FD); Stable (Triple B Plus; fixed deposit; Outlook: Stable)</b>	<b>Reaffirmed</b>
Total	39.20 (Rupees Thirty Nine crore twenty lakh only)		

*Details of facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the instruments of Gillanders Arbuthnot & Company Ltd (GACL) derive strength from the experience of the promoters along with demonstrated fund support, long and satisfactory track record of the Company, diversified business profile, satisfactory capital structure, and improvement in financial performance of foreign subsidiary in FY19 with moderation in H1FY20.

The ratings, however, continue to be constrained by the susceptibility of profitability to volatility in commodity prices and vagaries of nature, moderate order book position of engineering division, and working capital & labour intensive operations. The ratings also factor in moderate financial performance of the company in FY19 (refers to the period from April 1 to March 31) and H1FY20.

**Key Rating Sensitivities**
**Positive Factors**

- Improvement in PBILDT margin of the company over 10% coupled with improvement in textile division profitability on a sustained basis as ~60% of the revenue is from the said segment.
- Improvement in GCA above Rs.20 crore on a sustained basis from FY21 onwards.
- Reduction in overall gearing below 1.00x on a sustained basis.

**Negative Factors**

- Deterioration in gearing ratio over 1.40x on a sustained basis
- Stretch in working capital cycle of the company beyond 130 days on a continuous basis
- Deterioration in PBILDT margin below 6% on a sustained basis and prolonged weak 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 pharmaceuticals, chemicals, engineering products, healthcare, etc. through other group companies. Further, the promoters/ group companies have demonstrated fund support by subscribing to preference shares (Rs.12 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 to service 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. The textile division contributed about 56% of the revenue in FY19 followed by tea division at 32%. The diversified nature of operations provides resilience to GACL in times of slowdown in particular sector.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### **Satisfactory capital structure**

The overall gearing ratio has improved from 1.35x as on March 31, 2018 to 1.24x as on March 31, 2019 due to reduction in working capital borrowings of the company mainly due to realization of retention money.

### **Improving financial performance of foreign subsidiary in FY19 with moderation in H1FY20**

Naming'omba Tea Estates Limited (NTEL) is a 100% step down subsidiary of GACL and is engaged in manufacturing of Tea and Macadamia nuts. NTEL's revenue has grown by ~20% in FY19 over FY18 due to improvement in realization of macadamia nuts in FY19. The PBIT and PBIT margin has improved to Rs.19.41 crore in FY19 vis-à-vis Rs.10.27 crore in FY18 and 42.39% in FY19 vis-à-vis 27.02% in FY18 respectively.

However, NTEL's performance witnessed moderation in H1FY20 from H1FY19 because of lower sales realization of tea due to high tea production in African countries.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	38.00	45.78
PAT	4.42	9.64

GACL is in the process of releasing corporate guarantee by refinancing a term loan of Rs.28 crore through a bank in Malawi. Post the refinancing and scheduled repayment, the term loan against which the corporate guarantee has been extended shall reduce to Rs.22 crore. Further, GACL has lien marked FD of ~Rs.13 crore for the corporate guarantee extended.

### **Key Rating Weaknesses**

#### **Profitability susceptible to volatility in commodity prices & vagaries of nature**

GACL generated around 90% of its gross sales in FY19 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. Accordingly, the profitability of the company is susceptible to volatility in prices of commodity products. Further, GACL tea division profitability is exposed to vagaries to nature as the productivity of tea plantation is dependent upon weather conditions whereas the wages expense is fixed cost in nature.

Further, the raw materials used for manufacturing of synthetic yarn are dependent on the prices of crude oil prices which is highly volatile.

#### **Moderate order book position**

The order book as on October 31, 2019 is Rs.117 crore (around 1.7x of segment revenue in FY19) vis-à-vis Rs.130 crore as on June 30, 2018 (representing 1.6x of segment revenue for FY18). GACL bagged new order of Rs.60.0 crore in FY19. Further, in 7MFY20, GACL bagged new orders of Rs.10.72 crore.

#### **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. Accordingly, the overall operating cycle of the company improved from 139 days in FY18 to 114 days in FY19 due to realization of retention money but remained on higher side.

#### **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. Assam government has notified an interim enhancement of wages of tea plantation workers by a minimum amount of Rs.30 per day with retrospective effect from March 1, 2018, till finalization of the revised minimum wages proposed earlier by the state government. This steep increase has impacted the profitability and has an adverse impact on the operating cost of bulk tea players.

#### **Weak financial performance in FY19 and H1FY20**

GACL revenue from operations has grown by 12% in FY19 over FY18 mainly because of increase in revenue from engineering division. The PBILDT margin was stable at 7.55% in FY19 as compared to 7.95% in FY18 due to better performance in engineering division, tea division which was partially offset by under performance in textile division. The PBILDT interest coverage improved and stood at 1.20x as on March 31, 2019 vis-à-vis 1.13x as on March 31, 2018. The company incurred net loss of Rs.8.80 crore in FY19 vis-à-vis Rs.10.64 crore in FY18 due to high capital charge (interest & depreciation).

In H1FY20, GACL's financial performance has deteriorated vis-à-vis H1FY19. PAT declined to Rs.4.67 crore on operating revenue of Rs.341 crore from PAT of Rs.14.20 crore on operating revenue of Rs.361.79 crore in H1FY19 due to loss in textile division and decline in margin of engineering division.

#### **Liquidity: Adequate**

GACL earned GCA of Rs.9.77 crore in FY19 against the repayment obligation of Rs.34.38 crore in FY19 (including repayment of fixed deposits and medium term loan of Rs.10.0 crore). Though the GCA was not sufficient against the debt repayment schedule of FY19, GACL serviced the debt obligation on time by availing a medium term loan (of Rs.10.0 crore), issuing fresh fixed deposits and remaining from release of retention money. The current ratio is

moderate at 0.96x as on March 31, 2019. The working capital utilization stood moderate at 75% during the twelve months period ending August 2019, signifying unutilized cash credit limit of Rs.20-30 crore providing liquidity support to meet any shortfall in case operational cash flows are insufficient for the same. GACL has free cash & liquid investment of Rs.19 crore as on March 31, 2019.

**Analytical approach:** Standalone factoring in linkage with subsidiaries. GACL has provided corporate guarantee for debt availed by subsidiaries. Earlier CARE had taken a consolidated approach of GACL and its 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 - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Consolidation & Factoring Linkages in Ratings](#)

#### 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)	FY18 (A)	FY19 (A)
Total operating income	640.54	715.57
PBILDT	50.94	54.02
PAT	(10.64)	(8.80)
Overall gearing (times)	1.35	1.24
Interest coverage (times)	1.13	1.20

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fixed Deposit	-	-	March-2022	39.20	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	115.20	CARE BBB+; Stable	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)	1)CARE BBB+ (07-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	199.95	CARE A3+	1)CARE A3+ (27-Dec-19)	1)CARE A3+ (27-Nov-18)	1)CARE A3+ (08-Jan-18) 2)CARE A3+ (25-May-17)	1)CARE A3+ (07-Oct-16)
3.	Fund-based - LT/	LT/ST	50.80	CARE	1)CARE	1)CARE	1)CARE BBB+;	1)CARE

	ST-Bills discounting/ Bills purchasing			BBB+; Stable / CARE A3+	BBB+; Stable / CARE A3+ (27-Dec-19)	BBB+; Stable / CARE A3+ (27-Nov-18)	Negative / CARE A3+ (08-Jan-18) 2)CARE BBB+; Negative / CARE A3+ (25-May-17)	BBB+ / CARE A3+ (07-Oct-16)
4.	Fund-based - LT-Term Loan	LT	92.10	CARE BBB+; Stable	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)	1)CARE BBB+ (07-Oct-16)
5.	Fixed Deposit	LT	39.20	CARE BBB+ (FD); Stable	1)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)	1)CARE BBB+ (FD) (07-Oct-16)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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##### About CARE Ratings:

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