Gillanders Arbuthnot & Company Limited

August 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	207.30	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Long-term/Short-term Bank Facilities	50.80	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three)**	**Revised from CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**
Short-term Bank Facilities	149.19 (reduced from 199.95)	**CARE A3 (A Three)**	**Revised from CARE A3+ (A Three Plus)**
Total	**407.29 (Rs. Four hundred and seven and twenty nine crore only)**		
Fixed Deposit programme	**39.20 (Rupees Thirty nine crore twenty lakh only)**	**CARE BBB (FD); Stable (Triple B (fixed deposit); Outlook: Stable)**	**Revised from CARE BBB+ (FD); Stable (Triple B Plus (fixed deposit); Outlook: Stable)**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the Bank Facilities and Instruments of Gillanders Arbuthnot & Company Limited (GACL) takes into account the deterioration in the financial performance of the company in FY20 (refers to the period April 01 to March 31) due to weak performance of textile division, which is expected to remain subdued in view of the current pandemic situation. This has resulted in overall moderation in debt coverage indicators and financial flexibility. The ratings, further draw comfort from release of Standby Letter of Credit extended by GACL to its wholly owned subsidiary company, Gillanders Holding (Mauritius) Ltd, for acquiring 100% stake in Group Developments Ltd (GDL). The ratings continue to factor in the demonstrated fund support of the promoters, long and satisfactory track record of the company, diversified business profile and satisfactory capital structure.

The ratings, however, continue to be constrained by the susceptibility of profitability to volatility in commodity prices and vagaries of nature, and working capital & labour intensive operations.

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 ~50% of the revenue is from the said segment.
- Improvement in GCA above Rs.25 crore on a sustained basis.
- Timely liquidation of assets thereby ensuring adequacy of funds to reduce debt levels.

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 consistent 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 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 to service any shortfalls in accruals for servicing debt obligations, as has been adequately demonstrated in the past.

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

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 50% of the revenue in FY20 followed by tea division at 34%. The diversified nature of operations provides resilience to GACL in times of slowdown in particular sector. The company sold its Jutlibari Tea Estate in Assam in Q4FY20.

Satisfactory capital structure
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.
GACL has released the Standby Letter of Credit extended to Gillanders Holding (Mauritius) Ltd, for acquiring 100% stake in Group Developments Ltd (GDL), 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.50.76crore has been extinguished.

Key Rating Weaknesses
Weak financial performance in FY20 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.17.80crore in FY20 vis-à-vis Rs.8.80 crore in FY19 due to decline in revenue on account of subdued performance of textile division and high capital charge (interest and depreciation). As a result, company reported cash loss of Rs.2.11crore in FY20 against cash profit of Rs.9.77crore. Going forward, the profitability score of the company is expected to remain low due subdued market scenario in view of the current pandemic situation.
In MICCO division, the order book of the company as on June 30, 2020 stood at Rs.102crore (around 1.40x of segment revenue in FY20) vis-à-vis Rs.117 crore as on October 31, 2019 (around 1.7x of segment revenue in FY19).

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 114days in FY20 as FY19.

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.

Outlook on textile Industry
As per CARE Rating Report, spread of Covid-19 has disturbed the demand-supply situation of the Indian textiles industry. The closure of retail stores and malls on account of lockdown situation across the nation has affected the industry's sales. Even after the lockdown is lifted, demand for textiles footfalls remained low in malls and retail stores as people avoid visiting crowded markets. On the international front, the outbreak of Covid-19 is expected to keep the textiles demand under pressure in China thus hurting the Chinese cotton yarn and polyester markets. The demand distortions as discussed will hurt the domestic textiles production as well. Cancellation of export orders has led to build-up of inventories with the textile companies. Also, unsold stock with the industry players may soon run out of fashion for the next season to come which will add to the industry's burden. Given the unfavourable demand scenario, textile firms may not utilise their full capacities or may undertake production cuts thus bringing down the overall output of textiles during FY21. In addition to this, labour disruption (many labours have migrated to their hometowns) will also affect the total textile production numbers.

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.17.85crore, 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. 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.16.57crore as on March 31, 2020. Further the company and bankers have confirmed that the company has opted for moratorium 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 - Service Sector Companies
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)	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: 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
Fund-based - LT-Cash Credit	-	-	-	115.20	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	149.19	CARE A3
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	50.80	CARE BBB; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	March 2027	92.10	CARE BBB; Stable
Fixed Deposit	-	-	March-2023	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)	Ratings	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	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)
2.	Non-fund-based - ST-BG/LC	ST	149.19	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)
3.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	50.80	CARE BBB; Stable / CARE A3	-	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	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)
5.	Fixed Deposit	LT	39.20	CARE BBB (FD); Stable	-	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: 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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

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

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

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