

Gillanders Arbuthnot & Company Ltd

May, 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	279.40 (reduced from 297.68)	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Long/Short-term Bank Facilities	96.30 (reduced from 103.80)	CARE BBB+; Negative/CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)	Reaffirmed
Short-term Bank Facilities	248.96 (reduced from 281.12)	CARE A3+ (A Three Plus)	Reaffirmed
Total	624.66 (Rupees six hundred twenty four crore and sixty six lakh)		
Fixed Deposit programme	50.0 (Rupees Fifty crore only)	CARE BBB+ (FD); Negative [Triple B Plus (Fixed Deposit); Outlook: Negative]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposits programme of Gillanders Arbuthnot & Company Ltd (GACL) continue to derive strength experienced and resourceful promoters, long and satisfactory track record of the company and diversified business profile. The ratings also factor in moderation in financial performance and moderate capital structure & debt protection metrics in FY16 (refers to the period from April 1 to March 31) & 9MFY17.

Further, the ratings continue to be constrained by moderate order book position for engineering division, exposure to group companies, profitability susceptible to volatility in commodity prices & vagaries of nature and labour intensive nature of operation.

Ability of GACL to increase the scale of operation, improve operating margin and efficient management of working capital remains the key rating sensitivities. The performance of its subsidiary is also a key rating sensitivity since the company has extended corporate guarantee for the loan taken by its wholly owned subsidiary for acquisition of a tea garden in Malawi, Africa.

Outlook: Negative

The outlook is 'Negative' on expectation of engineering division performance to remain subdued in the near-term, which may impact the profitability of the company. The outlook may be revised to 'Stable' if the profitability of engineering division returns back to normal levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: Gillanders Arbuthnot & Company Ltd (GACL) was incorporated in 1935 and acquired by Kolkata-based G.D. Kothari group in late 1960's. Apart from GACL, the group has business interest in pharmaceuticals, chemicals, engineering products, healthcare, etc. through other companies. Shri A. K. Kothari, Chairman, along with Shri D. K. Sharda, MD, is managing the day-to-day affairs of the company.

Diversified business profile: GACL is a multidivisional entity engaged in diverse business such as textiles, engineering, tea, and leasing out property.

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

Key Rating Weaknesses

Moderation in order book position for engineering division: GACL's order book position declined from Rs.324.46 crore in Jun'15 to Rs.250.21 crore in Jun'16 due to weak capex activity.

Deterioration in financial performance in FY16 & 9MFY17: The company reported net loss of Rs.22.67 crore in FY16 (as against loss of Rs.3.21 crore in FY15) on operating income of Rs.798.79 crore in FY16 (as against Rs.858.85 crore in FY15). The moderation in the performance of the company in FY16 was mainly due to subdued performance of textile and engineering division. Segment-wise, textile division reported muted EBIT margin of 1.51% in FY16 due to the impact of weak yarn prices whereas engineering division posted negative operating margin of 1.21% in FY16 (vs operating margin of 7.78% in FY15) mainly due to increase in cost associated with the ongoing projects.

In 9MFY17, the company reported PAT of Rs.3.12 crore (as against Rs.14.29 crore in 9MFY16) on total operating income of Rs.488.62 crore (as against Rs.608.15 crore in 9MFY16). The subdued performance in 9MFY17 was mainly due to continued weak performance of engineering and tea segment. Segment-wise, engineering division reported negative operating margin of 9.97% mainly due to higher cost incurred on water system contracts. However, the textile segment operating margin improved to 5.82% in 9MFY17 due to stable yarn prices and improved product-mix as a result of entry into sale of specialty yarn products.

Moderate capital structure and debt protection metrics: GACL's overall gearing ratio deteriorated from 1.85x as on Mar'15 to 2.12x as on Mar'16 mainly due to depletion of networth on account of losses. Interest coverage ratio deteriorated from 1.22x in FY15 to 0.90x in FY16, but slightly improved to 1.17x in 9MFY17. The company had repaid debt of Rs.42.01 crore in FY17 out of proceeds from sale of non-core assets and issue of preference shares to promoters. With expectation of decline in interest cost due to reduction in debt and improvement in operating profit, the debt coverage indicators of the company are expected to improve in the near-future.

Despite high debt repayment and weak operating cash flow in FY17, the liquidity position of the company remained comfortable due to fund infusion of Rs.12.10 crore by the promoter in Nov 2016 and asset monetization of around Rs.35 crore in FY17. Average utilization of fund-based working capital limit was around 70% for the past 12 months ending March 2017.

Exposure to group companies: GACL has extended a corporate guarantee for an amount of Rs.84.29 crore (as on Mar 31, 2017) for the loan availed by its wholly owned subsidiary company, Gillanders Holding (Mauritius) Ltd, for acquiring 100% stake in a tea plantation company, Group Developments Ltd (GDL), in Malawi, Africa. After considering the impact of corporate guarantee, adjusted overall gearing stood at 2.53x as on Mar 31, 2016.

Profitability susceptible to volatility in commodity prices & vagaries of nature: GACL is mainly into sale of commodity products (such as yarn, tea, chemicals). 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.

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. Though GACL has not experienced any labour problem, it remains a key factor in the smooth running of the business.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

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

About the Company

Gillanders Arbuthnot & Company Ltd (GACL) was initially incorporated in 1935 and acquired by Kolkata-based G. D. Kothari group in late 1960's. GACL is a multi-location and multi-product company. Currently, the company is operating in four business segments - Engineering, Tea, Textile and Real Estate. GACL has discontinued its trading division w.e.f April 1, 2016 and has also sold its stake in its chemical division (Waldies Compound Limited) in March 2017.

The textile segment is engaged in the manufacture and sale of yarn and fabric made out of cotton and manmade fiber. The engineering segment is engaged in the manufacture and sale of steel structural, pipes and equipment and designing, supplying, erection and commissioning of projects on turnkey basis. The tea segment is engaged in the manufacture and sale of tea. The real estate segment is engaged in letting out property on rent. Among the segment, textile, tea and engineering are the major revenue contributors, accounting for 43%, 27% and 22% of gross sales in FY16, respectively.

GACL reported net loss of Rs.22.67 crore in FY16 (as against loss of Rs.3.21 crore in FY15) on operating income of Rs.798.79 crore in FY16 (as against Rs.858.85 crore in FY15). In 9MFY17, the company reported PAT of Rs.3.12 crore on total operating income of Rs.488.62 crore.

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	156.70	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	248.96	CARE A3+
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	96.30	CARE BBB+; Negative / CARE A3+
Fund-based - LT-Term Loan	-	-	March 2023	122.70	CARE BBB+; Negative
Fixed Deposit	October 2016	10.75	October 2019	50.00	CARE BBB+ (FD); Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	156.70	CARE BBB+; Negative	-	1)CARE BBB+ (07-Oct-16)	1)CARE BBB+ (24-Nov-15)	1)CARE A- (16-Jan-15) 2)CARE A- (28-May-14)
2.	Non-fund-based - ST-BG/LC	ST	248.96	CARE A3+	-	1)CARE A3+ (07-Oct-16)	1)CARE A3+ (24-Nov-15)	1)CARE A2+ (16-Jan-15) 2)CARE A2+ (28-May-14)
3.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	96.30	CARE BBB+; Negative / CARE A3+	-	1)CARE BBB+ / CARE A3+ (07-Oct-16)	1)CARE BBB+ / CARE A3+ (24-Nov-15)	1)CARE A- / CARE A2+ (16-Jan-15) 2)CARE A- / CARE A2+ (28-May-14)
4.	Fund-based - LT-Term Loan	LT	122.70	CARE BBB+; Negative	-	1)CARE BBB+ (07-Oct-16)	1)CARE BBB+ (24-Nov-15)	1)CARE A- (16-Jan-15) 2)CARE A- (28-May-14)
5.	Fixed Deposit	LT	50.00	CARE BBB+ (FD); Negative	-	1)CARE BBB+ (FD) (07-Oct-16)	1)CARE BBB+ (FD) (24-Nov-15)	1)CARE A (FD) (16-Jan-15) 2)CARE A (FD) (09-May-14)

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