

# Ratings

## Rating Rationale

April 10, 2017 | Mumbai

### Gloster Limited

*Rating outlook revised to 'Positive'; ratings reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Long Term Rating	CRISIL A/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)
Rs.50 Crore Commercial Paper	CRISIL A1 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has revised its rating outlook on the long-term bank facilities of Gloster Limited (Gloster; part of the Gloster group) to **'Positive'** from 'Stable', and reaffirmed the rating at **'CRISIL A'**; the rating on the short-term facilities and debt programme has been reaffirmed at 'CRISIL A1'.

The outlook revision reflects likely strengthening of the company's business risk profile over the medium term through sustenance of its current scale of operations and improvement in its profitability. Gloster's revenue are likely to improve to more than Rs.475crore, making it one of the largest jute manufacturing company. Further, Gloster's operating efficiency is also likely to improve because of gradual modernization of its capacities and its improved realisation from value added products. This is likely to help in improving the operating profitability margin to about 13% levels from historical average of 10-11% levels. While the operating margins have seen an improvement to 16.20% for the 9 month ended 2016-17, partially supporting the improvement in the current year has been due to strategic procurement of raw material by the management. A track record of substance of the profitability at the enhanced levels will remain a key rating sensitivity factor.

Improving profitability is also expected to result in higher cash generating ability of the company going forward which in turn is likely to reduce the dependence on external borrowing further thereby improving its financial flexibility over the medium term. Gloster liquidity is also expected to further improve on account of healthy cashflow from operations and moderate capital expenditure programme.

The ratings continue to reflect the group's established presence in the jute industry supported by its diversified product portfolio and its established relations with customers, and the group's efficient working capital management. The ratings also factor in the group's healthy financial risk profile marked by its healthy net worth, low gearing and robust debt protection metrics together with its comfortable liquidity profile. These rating strengths are partially offset by the group's exposure to risks related to the regulated nature of the jute industry and to easy availability of cheaper substitutes, and the susceptibility of the group's profitability margins to volatility in raw jute prices.

#### Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of Gloster Ltd and its two wholly owned subsidiaries - Gloster Lifestyle Ltd and Gloster Specialities Ltd. These entities are together referred to as the Gloster group.

#### Key Rating Drivers & Detailed Description Strengths

##### \* Established presence in the jute industry supported by diversified product portfolio

Gloster group manufactures jute & jute blended products, with continued focus on value-added segments. The group's product profile can be broadly classified into hessian, yarn, traditional jute products, and value-added products such as floor covering, geotextiles, processed decorative and industrial fabrics, food-grade quality jute cloth and bags, agro-textiles, furnishing fabrics, lifestyle products, made ups as woven and non-woven, jute nets and mats, fabrics treated for fire retardancy, microbial attacks as well as hydrocarbon-free jute bags. The company has also added new products- laminated jute fabrics, cotton treated for different end use functionalities, coated fabrics for soft luggage, coated molleton fabrics, yarns and non-woven products of certified organic jute. The company acts as a one-stop shop for all kinds of jute products available in the market. The group also exports its products to countries across the globe; the management introduces new products from time to time to keep pace with the changing demand.

##### \* Prudent working capital management

The debtor and creditor days has remained comfortable and in line with the historical trend. The credit terms vary from contract to contract; varies from advance payment to credit of 90 days. However, the raw material inventory period remained high at around 70 days on account of seasonal nature of the industry. The company procures bulk of its jute requirement in the

peak crop season.

#### \* Strong financial risk profile

Gloster group has a healthy financial risk profile. The net worth is healthy, estimated at Rs.139.2 crore as on March 31, 2016 (up from Rs.101.8 crore as on March 31, 2013), supported by steady accretions to reserves, sizeable revenue, and healthy profitability. The group has a conservative financial policy, with peak gearing over the last three years being low at 0.70 times as on March 31, 2016. The low gearing is on account of healthy cash accruals and working capital requirements and low debt funded capex. The modernisation of the facilities in turn helps the company in better productivity and hence increased cash generating ability.

#### Weakness

##### \* Exposure to risk from regulated nature of jute industry and easy availability of cheaper substitutes

The domestic jute industry is highly regulated by GoI, especially in key areas such as jute pricing and offtake. A minimum support price (MSP) for raw jute has been announced by the Cabinet Committee on Economic Affairs to prop up jute prices and ensure security for farmers. MSP, which varies from state to state and with jute variety, influences the end-price of jute products. Also, GoI, under the aegis of the Jute Packaging Material (Compulsory use in Packaging Commodities) Act (JPMA), 1987, has made it mandatory to use 90% of the jute bags for packaging food grains for consignments of 10 to 100 kilogram (kg) and 20% of jute bags for packaging sugar for consignment of 25 to 100 kg. This regulation is the key growth driver for the jute industry. Consumer packs of 25 kg and below for Sugar, 10 kg and below for food grains, and packaging for export of commodities are exempted from this act.

However, the conditions of the act are often diluted, as GoI occasionally also permits reuse of jute sacks for storage of food grains, thus impacting offtake of new jute sacks. The Govt. regulated nature of the industry makes Gloster susceptible to any adverse change in the Govt policy.

#### Outlook: Positive

CRISIL believes operating profitability of the Gloster group will improve over the medium term on the back of improved operational efficiencies and better realization from value added products. The ratings may be upgraded if the company sustains its improved profitability levels over near to medium term. The outlook may be revised to 'Stable' if profitability declines to previous levels or if sizeable, debt-funded capex weakens overall financial risk profile.

#### About the Company

Incorporated in 1992, Gloster manufactures jute products including value added diversified products. Its factory is at Bauria, Howrah (West Bengal). Gloster, promoted by the Bangur family, is listed on the Bombay Stock Exchange; the company's operations are managed by a professional team reporting to the Chairman, Mr. Hemant Bangur. Gloster manufactures conventional jute products like hessian, sacking, twine and yarn and is the pioneer in the area of manufacturing woven and non-woven fabrics, Jute geo textiles and value added products for interior decoration and packaging of industrial and agricultural products. Apart from the traditional products the company has also forayed into manufacturing lifestyle products including shopping and promotional bags under 'Gloster Lifestyle' brand.

The company has reported profit after tax (PAT) of Rs.39.9 crore on net sales of Rs.359.4 crore for nine months ended December 2016 as against PAT of Rs.25.5 crore on net sales of Rs.422.0 crore in 2015-16.

**Any other information:** Not applicable

#### Note on complexity levels of the rated instrument:

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#### Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	77	CRISIL A/Positive
NA	Long Term Loan	NA	NA	Jun-2017	1.66	CRISIL A/Positive
NA	Working Capital Demand Loan	NA	NA	NA	13	CRISIL A/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	34.34	CRISIL A/Positive
NA	Bank Guarantee	NA	NA	NA	4	CRISIL A1
NA	Letter of Credit	NA	NA	NA	20	CRISIL A1
NA	Commercial Paper	NA	NA	7-365 days	50	CRISIL A1

#### Annexure - Rating History for last 3 Years

Current				2017 (History)		2016		2015		2014		Start of 2014
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50	CRISIL A1		No Rating Change		No Rating Change	22-05-15	CRISIL A1		--	--
Fund-based Bank Facilities	LT/ST	126	CRISIL A/Positive		No Rating Change		No Rating Change	12-06-15	CRISIL A/Stable		No Rating Change	CRISIL A/Stable/

												CRISIL A1
Non Fund-based Bank Facilities	LT/ST	24	CRISIL A1		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A1

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

#### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	4	CRISIL A1	Bank Guarantee	4	CRISIL A1
Cash Credit	77	CRISIL A/Positive	Cash Credit	77	CRISIL A/Stable
Letter of Credit	20	CRISIL A1	Letter of Credit	20	CRISIL A1
Long Term Loan	1.66	CRISIL A/Positive	Long Term Loan	18.14	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	34.34	CRISIL A/Positive	Proposed Long Term Bank Loan Facility	17.86	CRISIL A/Stable
Working Capital Demand Loan	13	CRISIL A/Positive	Working Capital Demand Loan	13	CRISIL A/Stable
Total	150	--	Total	150	--

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Criteria for rating Short-Term Debt \(including Commercial Paper\)](#)

#### For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a>	<b>Arvind Rao</b> Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 4097 8278 <a href="mailto:arvind.rao@crisil.com">arvind.rao@crisil.com</a>	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301  For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a>
<b>Tanuja Abhinandan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000 <a href="mailto:tanuja.abhinandan@crisil.com">tanuja.abhinandan@crisil.com</a>	<b>Toshita Mukherjee</b> Rating Analyst - CRISIL Ratings <b>CRISIL Limited</b> D: +91 33 4011 8229 <a href="mailto:Toshita.Mukherjee@crisil.com">Toshita.Mukherjee@crisil.com</a>	For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a>
<b>Jyoti Parmar</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1835 B: +91 22 3342 3000 <a href="mailto:jyoti.parmar@crisil.com">jyoti.parmar@crisil.com</a>		



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