

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

June 27, 2019 | Mumbai

Gloster Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Long Term Rating	CRISIL A+/Stable
Short Term Rating	CRISIL A1+

Rs.50 Crore Commercial Paper	CRISIL A1+
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities and commercial paper of Gloster Limited (Gloster; Part of Gloster group) continues to reflect the Gloster group's established presence in the jute industry, supported by its diversified product portfolio and healthy relationships with customers; efficient working capital management; and strong financial risk profile because of large network, low gearing, robust debt protection metrics; and comfortable liquidity. These strengths are partially offset by exposure to risks related to the regulated nature of the jute industry and to easy availability of cheaper substitutes, and susceptibility of operating profitability to volatility in raw jute prices.

CRISIL on April 27, 2019 had upgraded its ratings on the short-term bank facilities and commercial paper of Gloster to 'CRISIL A1+' from 'CRISIL A1', and reaffirmed its 'CRISIL A+/Stable' rating on the company's long-term bank facilities.

The upgrade reflected the Gloster group's better-than-expected performance, with increase in operating profitability leading to higher cash accrual, and hence, better liquidity. The improvement in the operating margin is likely to sustain over the medium term as a result of gradual modernisation of capacity resulting in better operational efficiency, and increased contribution of value-added products that have better realisation. Operating margin improved to 19.44% in fiscal 2018 from 14.5% in fiscal 2017, and is estimated at 17-18% for fiscal 2019.

Higher profitability led to estimated cash accrual of Rs 63 crore in fiscal 2019 (Rs 65.92 crore in fiscal 2018 and Rs 54.2 crore in fiscal 2017). The group had quoted investment of Rs 73.35 crore (Total investment of Rs 174.62 crore) as on March

31, 2018. Hence, dependence on bank limit in the 12 months ended January 2019 was negligible, enhancing financial flexibility. However, utilisation of liquid funds will remain a key rating sensitivity factor.

Analytical Approach

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

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

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

The Gloster group manufactures jute and jute-blended products, with continued focus on value-added segments. The group's product profile can be classified into hessian, yarn, traditional jute products, and value-added products such as floor coverings, geotextiles, processed decorative and industrial fabrics, food-grade jute cloth and bags, agro-textiles, furnishing fabrics, lifestyle products, woven and non-woven made ups, jute nets and mats, fabrics treated for retarding fire and microbial attacks, and hydrocarbon-free jute bags. The group has added products such as laminated jute fabrics, cotton treated for different end uses, coated fabrics for soft luggage, coated molleton fabrics, yarn, and non-woven products of certified organic jute. The group is a one-stop shop for all kinds of jute products. It also exports to countries across the globe. The management regularly introduces new products to keep pace with changing demand.

*** Strong financial risk profile**

Networth is estimated to have increased to Rs 590 crore as on March 31, 2019, from Rs 552.9 crore as on March 31, 2018, backed by steady accretion to reserves, sizeable revenue, and healthy profitability. Also, financial policy is conservative, with peak gearing over the seven years ended 2019 being low at 0.69 time (0.05 time estimated as on March 31, 2019) because of healthy accrual and limited debt-funded capital expenditure (capex) for technology upgrade and replacement of old machinery. The capex is generally funded through internal accrual.

Weaknesses:

*** Exposure to risk related to the regulated nature of the jute industry, and easy availability of cheaper substitutes**

The domestic jute industry is highly regulated by the government, especially in key areas such as jute pricing and sales. The minimum support price (MSP) for raw jute announced by the Cabinet Committee on Economic Affairs to prop up jute prices and ensure security for farmers varies from state to state and with jute variety, thereby affecting end-price of jute products.

Also, under the aegis of the Jute Packaging Material (Compulsory use in Packaging Commodities) Act (JPMA), 1987, the government has made it mandatory to use only jute bags for packaging sugar and food grains for consignments of 26-100 kilo gram (kg). This regulation is the key growth driver for the jute industry. Consumer packs of 25 kg and below, and packing of food grains and sugar for export are exempted from this act. However, the conditions of the Act are often diluted because of availability of substitutes in the form of plastic bags, which are 30-50% cheaper than jute bags. Besides, the government occasionally permits reuse of jute sacks for storage of food grains, thus affecting sales of new jute sacks. Additionally, the government is the largest consumer of jute sacks in the domestic market, accounting for nearly 60% of demand. However, the JPMA Act has been provisionally revised to 100% for food grains till the end of April 2019, after which, the government will decide whether to continue or not. This decision will be a key sensitivity factor.

Liquidity

Liquidity of the group is healthy marked by estimated accruals of around Rs 63 crore in fiscal 2019 against modest repayment of around Rs 1.28 crore. Further bank limits of Rs 80 crore has been used at an average of below 15% in last 12

months through January, 2019. Bank limit utilisation has been continuously decreasing from 65% in CY 2009, 54% in CY 2016 and 17% in CY 17. Further the group has quoted investments of Rs 73.35 crore as on March 31, 2018 and estimated at above 80 crore as on March 31, 2019. Current ratio was healthy at 4.1 times as on March 31, 2019 and estimated at ~6.8 as on March 31, 2019.

Outlook: Stable

CRISIL believes the Gloster group will maintain its established market position in the jute industry over the medium term backed by its diversified and value-added product portfolio and established ties with customers. The outlook may be revised to 'Positive' if there is a substantial and sustained increase in revenue while operating profitability margin remains stable and financial risk profile strong. The outlook may be revised to 'Negative' if operating profitability drops sharply or if capital structure and liquidity weaken because of large, debt-funded capex or any regulatory change in the jute sector.

About the Group

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 such as hessian, sacking, twine, and yarn, and is the pioneer in manufacturing woven and non-woven fabrics, jute geotextiles, and value-added products for interior decoration and packaging of industrial and agricultural products. Apart from traditional products, the company has started manufacturing lifestyle products, including shopping and promotional bags under the Gloster Lifestyle brand.

Gloster Lifestyle Ltd is involved in manufacturing textiles business. The Gross revenue of the Company stood at Rs 55.49 lakhs (previous year Rs 69.52 lakhs) and profit after tax for the year stood at Rs 45.55 lakhs (previous year Rs 46.45 lakhs) in fiscal 2018.

Gloster Specialities Ltd is a manufacture of wearing apparels. The gross revenue of the company stood at Rs 59.23 lakhs (previous year Rs 62.26 lakhs) and profit after tax for the year stood at Rs 43.36 lakhs (previous year Rs 43.28 lakhs) in fiscal 2018.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs Cr.	466.13	508.63
Profit After Tax (PAT)	Rs Cr.	42	34.9
PAT Margin	%	9.01	6.86
Adjusted Debt/Adjusted Networth	Times	0.03	0.19
Interest coverage	Times	75.94	20.7

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 (Rs.Cr)	Rating Assigned with Outlook

NA	Cash Credit	NA	NA	NA	77	CRISIL A+/Stable
NA	Long-Term Loan	NA	NA	Mar-2020	1.66	CRISIL A+/Stable
NA	Working Capital Demand Loan	NA	NA	NA	13	CRISIL A+/Stable
NA	Proposed Long-Term Bank Loan Facility	NA	NA	NA	30.34	CRISIL A+/Stable
NA	Bank Guarantee	NA	NA	NA	4	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	24	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	50	CRISIL A1+

Annexure - List of Entities Consolidated

Entity Consolidated	Extent of Consolidation	Rationale for Consolidation
Gloster Lifestyle Ltd	Full	100% owned subsidiary
Gloster Specialities Ltd	Full	100% owned subsidiary

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.00	CRISIL A1+	27-04-19	CRISIL A1+	30-04-18	CRISIL A1	10-04-17	CRISIL A1	14-03-16	CRISIL A1	CRISIL A1
										12-01-16	CRISIL A1	
Fund-based Bank Facilities	LT/ST	122.00	CRISIL A+/Stable	27-04-19	CRISIL A+/Stable	30-04-18	CRISIL A+/Stable	10-04-17	CRISIL A/Positive	14-03-16	CRISIL A/Stable	CRISIL A/Stable
										12-01-16	CRISIL A/Stable	
Non Fund-based Bank Facilities	LT/ST	28.00	CRISIL A1+	27-04-19	CRISIL A1+	30-04-18	CRISIL A1	10-04-17	CRISIL A1	14-03-16	CRISIL A1	CRISIL A1
										12-01-16	CRISIL A1	

All amounts are in Rs.Cr.

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+/Stable	Cash Credit	77	CRISIL A+/Stable

Letter of Credit	24	CRISIL A1+	Letter of Credit	20	CRISIL A1+
Long Term Loan	1.66	CRISIL A+/Stable	Long Term Loan	1.66	CRISIL A+/Stable
Proposed Long Term Bank Loan Facility	30.34	CRISIL A+/Stable	Proposed Long Term Bank Loan Facility	34.34	CRISIL A+/Stable
Working Capital Demand Loan	13	CRISIL A+/Stable	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](#)

[CRISILs Bank Loan Ratings](#)

[CRISILs Criteria for Consolidation](#)

[Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crsil.com	Mohit Makhija Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 mohit.makhija@crsil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crsil.com
Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crsil.com	Jaya Mirpuri Associate Director - CRISIL Ratings CRISIL Limited D: +91 20 4018 1926 jaya.mirpuri@crsil.com	For Analytical queries: ratingsinvestordesk@crsil.com
Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crsil.com	Saurav Jha Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 33 4011 8222 Saurav.Jha@crsil.com	

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