

# Ratings



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## Rating Rationale

December 19, 2019 | Mumbai

## Gloster Limited

*Ratings Reaffirmed*

### Rating Action

|   |                                      |
|---|--------------------------------------|
| <b>Total Bank Loan Facilities Rated</b> | <b>Rs.150 Crore</b>                  |
| <b>Long Term Rating</b>                 | <b>CRISIL A+/Stable (Reaffirmed)</b> |
| <b>Short Term Rating</b>                | <b>CRISIL A1+ (Reaffirmed)</b>       |

|                                     |                                |
|-------------------------------------|--------------------------------|
| <b>Rs.50 Crore Commercial Paper</b> | <b>CRISIL A1+ (Reaffirmed)</b> |
|-------------------------------------|--------------------------------|

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A+/Stable/CRISIL A1+' ratings on the bank facilities and commercial paper of Gloster Limited (Gloster; part of the Gloster group).

The ratings continue to reflect the Gloster group's established presence in the jute industry, supported by a diversified product portfolio and healthy relationships with customers; efficient working capital management, and strong financial risk profile. These strengths are partially offset by exposure to risks arising from the regulated nature of the jute industry, easy access to cheaper substitutes, and volatility in raw jute prices.

### 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 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, and also exports them to countries across the globe. The management regularly introduces new products to keep pace with the changing demand trends.

#### **\* Strong financial risk profile**

Networth rose to Rs 607.12 crore as on March 31, 2019, from Rs 552.91 crore as on March 31, 2018, backed by steady accretion to reserves, sizeable revenue, and healthy profitability. Financial policy is conservative, with peak gearing over the seven years ended March 31, 2019, low at 0.67 time (0.04 time as on March 31, 2019), aided by healthy accrual and limited debt-funded capital expenditure (capex) undertaken to upgrade technology and replace old machinery. The capex is generally funded through internal accrual.

#### **Weaknesses:**

##### **\* Exposure to risks arising from regulated nature of the jute industry, and easy access to cheaper substitutes**

The domestic jute industry is highly regulated, 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 the 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 of sugar and food grains, for consignments ranging from 26-100 kg. This regulation has been a key growth driver for the jute industry. The Act, however, exempts consumer packs of 25 kg and below, and packaging of food grains and sugar for exports. Conditions of the Act are also diluted, as substitutes such as plastic bags are available at rates 30-50% lower in comparison to 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 itself is the largest consumer of jute sacks in the domestic market, accounting for nearly 60% of demand.

#### **Liquidity Strong**

Liquidity of the group is strong, marked by cash accrual of Rs 69.1 crore in fiscal 2019, against modest repayment of around Rs 87 lakh. Going forward, the group is expected to report cash accrual of Rs 50-60 crore, against maturing debt of Rs 80-90 lakh. The balance amount may also be retained in the business. Bank limits of Rs 80 crore was utilised negligibly, at less than 13% on an average, in the 12 months through September 2019. Additionally the group has quoted investments of Rs 97.8 crore as on March 31, 2019, and Rs 117.39 crore as on Sep 30, 2019 (Further Rs 57.85 crore in unquoted investment). Current ratio was healthy at 4.75 times as on March 31, 2019.

#### **Outlook: Stable**

CRISIL believes the Gloster group will maintain its established market position in the jute industry, backed by the diversified and value-added product portfolio, and established relationships with customers.

#### **Rating sensitivity factors:**

##### **Upward factors**

- \* Substantial growth in revenue, driven by 30-40% increase in volume, and sustenance of operating margin
- \* Timely completion of capex, with lower-than-expected debt, leading to improvement in capital structure and revenue visibility

**Downward factors**

- \* Any adverse regulatory change, leading to decline in revenue and profitability (below 10%)
- \* Increase in investments in risky assets like inter corporate investment.

**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. Operations are managed by a team of professionals, 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 the textiles manufacturing business. Gross revenue stood at Rs 43.78 lakh (lower than Rs 55.49 lakh in the previous fiscal) and profit after tax for the year stood at Rs 38.19 lakh (against Rs 45.55 lakh) in fiscal 2019.

Gloster Specialities Ltd manufactures wearing apparel. Gross revenue and profit after tax of Rs 50.65 lakh and Rs 41.62 lakh were reported, respectively, for fiscal 2019, as against Rs 59.23 lakh and Rs 43.36 lakh, respectively, in fiscal 2018.

**Key Financial Indicators**

| Particulars                    | Unit     | 2019   | 2018   |
|--------------------------------|----------|--------|--------|
| Revenue                        | Rs crore | 503.69 | 466.13 |
| Profit After Tax               | Rs crore | 44.77  | 42     |
| PAT Margin                     | %        | 8.9    | 9      |
| Adjusted Debt/Adjusted Network | Times    | 0.04   | 0.03   |
| Interest coverage              | Times    | 62.04  | 30.9   |

**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            | 68                 | CRISIL A+/Stable             |
| NA   | Proposed Cash Credit                  | NA                | NA              | NA            | 20                 | CRISIL A+/Stable             |
| NA   | Long Term Loan                        | NA                | NA              | Mar-21        | 2.5                | CRISIL A+/Stable             |
| NA   | Working Capital Demand Loan           | NA                | NA              | NA            | 12                 | CRISIL A+/Stable             |
| NA   | Proposed Long Term Bank Loan Facility | NA                | NA              | NA            | 12.5               | CRISIL A+/Stable             |
| NA   | Bank Guarantee                        | NA                | NA              | NA            | 1                  | CRISIL A1+                   |
| NA   | Proposed Bank Guarantee               | NA                | NA              | NA            | 6                  | CRISIL A1+                   |
| NA   | Letter of Credit                      | NA                | NA              | NA            | 28                 | 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+       | 27-06-19       | CRISIL A1+       | 30-04-18 | CRISIL A1        | 10-04-17 | CRISIL A1         | 14-03-16 | CRISIL A1       | CRISIL A1       |
|                                |         |                    |                  | 27-04-19       | CRISIL A1+       |          |                  |          |                   | 12-01-16 | CRISIL A1       |                 |
| Fund-based Bank Facilities     | LT/ST   | 115.00             | CRISIL A+/Stable | 27-06-19       | CRISIL A+/Stable | 30-04-18 | CRISIL A+/Stable | 10-04-17 | CRISIL A/Positive | 14-03-16 | CRISIL A/Stable | CRISIL A/Stable |
|                                |         |                    |                  | 27-04-19       | CRISIL A+/Stable |          |                  |          |                   | 12-01-16 | CRISIL A/Stable |                 |
| Non Fund-based Bank Facilities | LT/ST   | 35.00              | CRISIL A1+       | 27-06-19       | CRISIL A1+       | 30-04-18 | CRISIL A1        | 10-04-17 | CRISIL A1         | 14-03-16 | CRISIL A1       | CRISIL A1       |
|                                |         |                    |                  | 27-04-19       | 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              | 1                 | CRISIL A1+       | Bank Guarantee                        | 4                 | CRISIL A1+       |
| Cash Credit                 | 68                | CRISIL A+/Stable | Cash Credit                           | 77                | CRISIL A+/Stable |
| Letter of Credit            | 28                | CRISIL A1+       | Letter of Credit                      | 24                | CRISIL A1+       |
| Long Term Loan              | 2.5               | CRISIL A+/Stable | Long Term Loan                        | 1.66              | CRISIL A+/Stable |
| Proposed Bank Guarantee     | 6                 | CRISIL A1+       | Proposed Long Term Bank Loan Facility | 30.34             | CRISIL A+/Stable |
| Proposed Cash Credit Limit  | 20                | CRISIL A+/Stable | Working Capital Demand Loan           | 13                | CRISIL A+/Stable |
| Working Capital Demand Loan | 12                | CRISIL A+/Stable | --                                    | 0                 | --               |

|  |             |                         |              |            |           |
|--|-------------|-------------------------|--------------|------------|-----------|
| <b>Proposed Long Term Bank Loan Facility</b> | <b>12.5</b> | <b>CRISIL A+/Stable</b> | <b>--</b>    | <b>0</b>   | <b>--</b> |
| <b>Total</b>                                 | <b>150</b>  | <b>--</b>               | <b>Total</b> | <b>150</b> | <b>--</b> |

#### 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](#)

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