

# Ratings



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## Rating Rationale

December 30, 2020 | 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>
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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 group's established presence in the jute industry, supported by a diversified product portfolio and a healthy relationship with customers. The ratings also factor in efficient working capital management and a strong financial risk profile. These strengths are partially offset by exposure to risks arising from the regulated nature of the industry, easy access to cheaper substitutes, volatility in raw jute prices, and timely completion of the large capital expenditure (capex).

Operations were initially impacted in the fiscal 2021 due to covid 19 pandemic. The group quickly recovery after the lockdowns were lifted. The jute industry resumed operations in May 2020. Gloster group reached historical capacity utilisation by mid of fiscal 2021 and has recorded around Rs 176 crore of revenue in first half of fiscal 2021 against around Rs 250 crore in same period last year (30% drop). Healthy government demand for jute sacks should continue to drive volume for the industry. Overall the group could see net revenue drop of around 15% in revenue in fiscal 2021, when comparison to last year.

### 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. That's because all these companies, collectively referred to as the Gloster group, have financial fungibility amongst themselves.

*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 a diversified product portfolio**

The 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 changing demand trends.

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

The networth rose to Rs 616 crore as on March 31, 2020, from Rs 607.12 crore as on March 31, 2019, backed by steady accretion to reserves, sizeable revenue and healthy profitability. The financial policy is conservative, as indicated by the low peak gearing of 0.67 time over the seven years ended March 31, 2019 (0.05 time as on March 31, 2020), aided by healthy cash accrual and limited debt-funded capex undertaken to upgrade technology and replace old machinery. The capex is generally funded through internal cash accrual.

#### **Weaknesses:**

##### **\* Exposure to risks arising from the 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 of 26-100 kilogram (kg). This regulation has been a key growth driver for the industry. The act, however, exempts consumer packs of 25 kg and below, and packaging of food grains and sugar for export. Conditions of the act are also diluted, as substitutes such as plastic bags are available at a 30-50% lower price in comparison with 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.

**\* Exposure to risk related to timely completion of capex:** The group has plans to expand its manufacturing capacity by around 100 tonne per day, which would entail an investment of Rs 100-120 crore. The funding mix has not yet been finalised, but is likely to be about 70% funded through external sources. The project is expected to be completed in fiscal 2023 and commercial operation would start from fiscal 2024. Timely completion and commercialisation of the project along with the funding mix will remain key rating sensitivity factors.

#### **Liquidity Strong**

Cash accrual was Rs 44 crore in fiscal 2020 (after taking into account an exceptional loss of Rs 15 crore), against modest repayment of around Rs 87 lakh. Cash accrual is expected at Rs 45-50 crore, against maturing debt of Rs 1.17 crore, per

fiscal in fiscals 2021 and 2022. The balance may also be used for any further capex plans. The bank limit of Rs 88 crore was utilised moderately, at an average of around 24% in the 12 months through September 2020. Additionally, the group had quoted investments of around Rs 23 crore as on November 30, 2020 (besides around Rs 110 crore in unquoted investments). The current ratio was healthy at 3.86 times as on March 31, 2020. Also, the group had not availed the Covid-19 pandemic-related moratorium. The group has not placed the rated commercial papers in the market.

#### **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 relationship with customers.

#### **Rating Sensitivity factors**

##### **Upward factors**

- \* Substantial growth in revenue driven by 15-20% increase in volume, and sustenance of the operating margin
- \* Timely completion of the capex with lower-than-expected debt, leading to improvement in the capital structure and revenue visibility

##### **Downward factors**

- \* Any adverse impact of regulatory changes, leading to a decline in revenue and profitability (operating margin of below 10%)
- \* An increase in investments in risky assets like inter-corporate deposits.

#### **About the Group**

Incorporated in 1992 and promoted by the Bangur family, Gloster manufactures jute products including value-added diversified products. Its factory is at Bauria in Howrah, West Bengal. Operations are managed by a team of professionals, reporting to the chairman, Mr Hemant Bangur. Gloster is listed on the Bombay Stock Exchange.

The company 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 manufactures textiles, while Gloster Specialities manufactures wearing apparel.

#### **Key Financial Indicators**

Particulars	Unit	2019	2018
Revenue	Rs crore	495.99	503.69
Profit after tax (PAT)	Rs crore	24.37	53.35
PAT margin	%	3.91	8.89
Adjusted debt/adjusted net worth	Times	0.05	0.04
Interest coverage	Times	24.10	62.04

**Any other information:** Not applicable

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

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

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

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs..Cr)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	68	NA	CRISIL A+/Stable
NA	Proposed Cash Credit	NA	NA	NA	20	NA	CRISIL A+/Stable
NA	Long Term Loan	NA	NA	Mar-21	2.5	NA	CRISIL A+/Stable
NA	Working Capital Demand Loan	NA	NA	NA	12	NA	CRISIL A+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	12.5	NA	CRISIL A+/Stable
NA	Bank Guarantee	NA	NA	NA	1	NA	CRISIL A1+
NA	Proposed Bank Guarantee	NA	NA	NA	6	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	28	NA	CRISIL A1+
NA	Commercial Paper	NA	NA	7-365 days	50	Simple	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**

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.00	CRISIL A1+			19-12-19	CRISIL A1+	30-04-18	CRISIL A1	10-04-17	CRISIL A1	CRISIL A1
						27-06-19	CRISIL A1+					
						27-04-19	CRISIL A1+					
Fund-based Bank Facilities	LT/ST	115.00	CRISIL A+/Stable			19-12-19	CRISIL A+/Stable	30-04-18	CRISIL A+/Stable	10-04-17	CRISIL A/Positive	CRISIL A/Stable
						27-06-19	CRISIL A+/Stable					
						27-04-19	CRISIL A+/Stable					
Non Fund-based Bank Facilities	LT/ST	35.00	CRISIL A1+			19-12-19	CRISIL A1+	30-04-18	CRISIL A1	10-04-17	CRISIL A1	CRISIL A1
						27-06-19	CRISIL A1+					
						27-04-19	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	1	CRISIL A1+
Cash Credit	68	CRISIL A+/Stable	Cash Credit	68	CRISIL A+/Stable
Letter of Credit	28	CRISIL A1+	Letter of Credit	28	CRISIL A1+
Long Term Loan	2.5	CRISIL A+/Stable	Long Term Loan	2.5	CRISIL A+/Stable
Proposed Bank Guarantee	6	CRISIL A1+	Proposed Bank Guarantee	6	CRISIL A1+
Proposed Cash Credit Limit	20	CRISIL A+/Stable	Proposed Cash Credit Limit	20	CRISIL A+/Stable
Proposed Long Term Bank Loan Facility	12.5	CRISIL A+/Stable	Proposed Long Term Bank Loan Facility	12.5	CRISIL A+/Stable
Working Capital Demand Loan	12	CRISIL A+/Stable	Working Capital Demand Loan	12	CRISIL A+/Stable
<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](#)
**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>Naireen Ahmed</b>	<b>Mohit Makhija</b> Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 124 672 2000 <a href="mailto:mohit.makhija@crisil.com">mohit.makhija@crisil.com</a>  <b>Argha Chanda</b> Associate Director - CRISIL Ratings	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>  For Analytical queries:

Media Relations

**CRISIL Limited**

D: +91 22 3342 1818

B: +91 22 3342 3000

[naireen.ahmed@crsil.com](mailto:naireen.ahmed@crsil.com)**CRISIL Limited**

D:+91 33 4011 8210

[Argha.Chanda@crsil.com](mailto:Argha.Chanda@crsil.com)**Saurav Kumar Jha**

Rating Analyst - CRISIL Ratings

**CRISIL Limited**

D:+91 33 4011 8222

[Saurav.Jha@crsil.com](mailto:Saurav.Jha@crsil.com)[ratingsinvestordesk@crsil.com](mailto:ratingsinvestordesk@crsil.com)



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