



## Rating Rationale

December 31, 2021 | Mumbai

### Gloster Limited

*Ratings reaffirmed at 'CRISIL A+ / Stable / CRISIL A1+ '*

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

The ratings continue to reflect the established presence of the group in the jute industry, supported by a diversified product portfolio and healthy relationships 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).

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Gloster and its three wholly-owned subsidiaries, Gloster Nuvo Ltd, 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 comprises 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. It 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:**

Networth rose to Rs 686 crore as on March 31, 2021, from Rs 616 crore as on March 31, 2020, backed by steady accretion to reserves, sizeable revenue and healthy profitability. Financial policy is conservative, as indicated by the low peak gearing of 0.67 time over the seven years ended March 31, 2019 (0.04 time as on March 31, 2021), aided by healthy cash accrual and limited debt-funded capital expenditure (capex) undertaken to upgrade technology and replace the old machinery. Capex is generally funded through internal cash accrual. Gearing and debt protection metrics should remain strong despite the debt-funded capex (with borrowings of Rs 250 crore] being undertaken by the Gloster group to expand its jute manufacturing capacity.

**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 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 price that is 30-50% lower 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 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 ongoing expansion of manufacturing capacity (by 130 tonnes per day) entails an investment of Rs 325 crore. The project will be funded through debt: equity ratio of 3:1, and will be implemented in phases. Phase I (90 tonne per day) will become operational from fiscal 2024 and phase II (40 tonne per day) will become operational from fiscal 2025. Timely completion and commercialisation of the project along with stabilisation are key rating sensitivity factors.

**Liquidity: Adequate**

Cash accrual of Rs 65.52 crore was reported in fiscal 2021, against modest repayment of around Rs 2.37 crore. Cash accrual of Rs 65-70 crore is expected against maturing debt of Rs 1.17 crore, per fiscal in 2022 and 2023. The balance may also be used to meet further capex plans. The bank limit of Rs 88 crore was utilised negligibly, at an average of around 12% in the 12 months through November 2021. Additionally, the group had sizeable liquid investments, which enhances the overall liquidity profile of the group. The current ratio was healthy at 4.10 times as on March 31, 2021.

**Outlook: Stable**

CRISIL Ratings 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 40-50% increase in volume, and a steady operating margin
- Timely completion and stabilisation of the capex, supporting the capital structure and enhancing revenue visibility

**Downward factors:**

- Adverse impact of regulatory changes, leading to a decline in revenue and profitability (operating margin of below 10%)
- Any delay in the project leading to cost overrun and thereby increasing debt.

**About the Group**

Gloster was set up in 1992, by the promoter, Mr Bangur and his family. The company manufactures various jute products, including value-added ones, and has a factory 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 a pioneer in manufacturing woven and non-woven fabrics, jute geotextiles and value-added products for interior decoration, and packaging of industrial and agricultural products. The company also manufactures lifestyle products, including shopping and promotional bags under the Gloster Lifestyle brand. Gloster Lifestyle and Gloster Specialities manufacture textiles and apparel, respectively.

**Key Financial Indicators**

Particulars	Unit	2021	2020
Revenue	Rs crore	502.47	495.99
Profit after tax (PAT)	Rs crore	41.07	19.38
PAT margin	%	8.17	3.91
Adjusted debt/adjusted net worth	Times	0.04	0.05
Interest coverage	Times	45.82	27.47

**Any other information:** Not applicable

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

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

**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-2022	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**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Gloster Lifestyle Ltd	Full	100% owned subsidiary
Gloster Specialities Ltd	Full	100% owned subsidiary
Gloster Nuvo Ltd	Full	100% owned subsidiary

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

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	115.0	CRISIL A+/Stable		--	30-12-20	CRISIL A+/Stable	19-12-19	CRISIL A+/Stable	30-04-18	CRISIL A+/Stable	CRISIL A/Positive
			--		--		--	27-06-19	CRISIL A+/Stable		--	--
			--		--		--	27-04-19	CRISIL A+/Stable		--	--
<b>Non-Fund Based Facilities</b>	ST	35.0	CRISIL A1+		--	30-12-20	CRISIL A1+	19-12-19	CRISIL A1+	30-04-18	CRISIL A1	CRISIL A1
			--		--		--	27-06-19	CRISIL A1+		--	--
			--		--		--	27-04-19	CRISIL A1+		--	--
<b>Commercial Paper</b>	ST	50.0	CRISIL A1+		--	30-12-20	CRISIL A1+	19-12-19	CRISIL A1+	30-04-18	CRISIL A1	CRISIL A1
			--		--		--	27-06-19	CRISIL A1+		--	--
			--		--		--	27-04-19	CRISIL A1+		--	--

All amounts are in Rs.Cr.

#### **Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Rating
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<b>Bank Guarantee</b>	<b>1</b>	<b>CRISIL A1+</b>
<b>Cash Credit</b>	<b>9</b>	<b>CRISIL A+/Stable</b>
<b>Cash Credit</b>	<b>10</b>	<b>CRISIL A+/Stable</b>
<b>Cash Credit</b>	<b>5</b>	<b>CRISIL A+/Stable</b>
<b>Cash Credit</b>	<b>44</b>	<b>CRISIL A+/Stable</b>
<b>Letter of Credit</b>	<b>3</b>	<b>CRISIL A1+</b>
<b>Letter of Credit</b>	<b>4</b>	<b>CRISIL A1+</b>
<b>Letter of Credit</b>	<b>10</b>	<b>CRISIL A1+</b>
<b>Letter of Credit</b>	<b>11</b>	<b>CRISIL A1+</b>
<b>Long Term Loan</b>	<b>2.5</b>	<b>CRISIL A+/Stable</b>
<b>Proposed Bank Guarantee</b>	<b>6</b>	<b>CRISIL A1+</b>
<b>Proposed Cash Credit Limit</b>	<b>20</b>	<b>CRISIL A+/Stable</b>
<b>Proposed Long Term Bank Loan Facility</b>	<b>12.5</b>	<b>CRISIL A+/Stable</b>
<b>Working Capital Demand Loan</b>	<b>12</b>	<b>CRISIL A+/Stable</b>

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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