

## Rating Update

April 10, 2024 | Mumbai

# Gloster Limited

### Update as on April 10, 2024

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

#### Upward factors

- Substantial growth in revenue and volumetric sales coupled with sustenance of operating margin around 15-16% leading to significantly higher net cash accruals
- Timely completion and stabilization of capex, supporting the capital structure and enhancing revenue generation

#### Downward factors

- Adverse impact of regulatory changes, leading to decline in revenue and profitability below 10%
- Substantial time and cost overruns in the project and/or large dividend payout exerting pressure on financial risk profile, also leading to significant dilution of liquidity position

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Gloster Limited (Gloster; part of the Gloster group) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

#### About the Group

Gloster was set up in 1992, by the promoter, Mr Bangur and his family members. The company manufactures jute products and has a factory in Howrah, West Bengal. Operations are managed by a team of professionals, reporting to the chairman, Mr Hemant Bangur. It is listed on the Bombay Stock Exchange.

The group 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. It also manufactures lifestyle products, including shopping and promotional bags, textile and apparel. The group is also engaged in manufacturing of industrial cable through Fort Gloster Industries Limited.

Gloster Nuvo Limited is a wholly owned subsidiary of Gloster Ltd. Gloster Nuvo was incorporated in January 2020 for enhancing jute production capacity of Gloster Group. Commercial operation of the unit is expected to commence in fiscal 2025.

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## Rating Rationale

April 28, 2023 | 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 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 strong market position in the jute industry, supported by diversified product portfolio and strong financial risk profile. These strengths are partially offset by exposure to risks related to timely completion of capex and to regulatory risks, and easy access to cheaper substitutes.

Revenue improved to Rs 730 crore in fiscal 2022, marked by y-o-y growth of 50%. Robust demand from both domestic and export markets and sufficient cost pass through continue to support profitability, leading to operating margins of 15.75% in fiscal 2022 against 16.58% in fiscal 2021. In 9 months of fiscal 2023, revenue was around Rs 532 crore (unaudited) against operating margins of 12.66% (unaudited).

In Q1 fiscal 2023 the industry was impacted by cap levied by government on procurement price of raw jute at Rs 65,000 per MT in September 2021, while actual purchase price continued to remain high. After resistance from the local jute players and closure of multiple jute mills, the cap was revoked in May 2022. Furthermore, as majority of exports are to European nations, Russia-Ukraine war led to lower demand and export volumes is estimated to have shrunk in H1 fiscal 2023. Going forward, for sustenance of operating profitability around 15-17%, unhindered exports remain key monitorable. Moreover, the on-going capital expenditure (capex) to expand production capacity is expected to commence in fiscal 2025, yielding steady improvement in business risk profile over the medium term.

Moreover, GL has consistently declared dividend over the last 5 years; an equity dividend of 350% amounting to Rs 35 per share was declared for fiscal 2022 and interim dividend of 500% amounting of Rs 50 per share was declared on October 31, 2022. Going forward, GL will continue to declare dividends but any large dividend declaration diluting the liquidity position will remain a key monitorable.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Gloster and its five wholly owned subsidiaries, Gloster Lifestyle Limited, Gloster Specialities Limited, Gloster Nuvo Limited, Fort Gloster Industries Limited and Network Industries Limited, collectively referred to as the Gloster group, as they have financial fungibility.

*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:**

**Strong market position in the jute industry, supported by diversified product portfolio:**

GL manufactures jute and jute-blended and allied products. Its diversified 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. It 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 exports them to countries across the globe. GL regularly introduces new products to keep pace with changing trends, hence management's ability to effectively manage the diversified product portfolio, addressing demand from across the globe supports group's business risk profile going forward.

### **Strong financial risk profile**

Healthy networth of Rs 784 crore as on March 31, 2022, is estimated to be around Rs 850 crore as on March 31, 2023, is supported by steady revenue growth and sustenance of profitability coupled with controlled dividend payout. Healthy networth support capital structure, yielding gearing and total outside liabilities to total networth ratios of 0.01 time and 0.21 time, respectively for fiscal 2022. Despite contraction of external debt of around Rs 245 crore for the on-going capex, gearing is expected to remain around 0.2 time over the medium term, aided by healthy operating profitability and net cash accrual. Regular capex is generally funded through internal cash accrual. Debt protection metrics have also been healthy. Going forward, with timely commission and stabilization of the expansion capex, financial risk profile is expected to further strengthen providing even better financial flexibility to the group.

### **Weaknesses:**

**Exposure to risks related to timely completion of capex:** Group has undertaken to expand its production capacity by 130 ton per day, entailing expenditure of around Rs 325 crore. The project is being funded in debt-to-equity ratio of 3:1. The new capacity will be implemented in phases. Phase I (90 tonne per day) was likely to be operational from end of fiscal 2023 and phase II (40 tonne per day) from end of fiscal 2024. However, due to operational delay in setting up of transmission lines and import of machinery, phase 1 and phase 2 is expected to commission from March 2024 and March 2025 respectively. Implementation of the project was rescheduled accounting for time overrun, hence exerting no pressure on financial risk profile of the group. Timely completion and commercialization of the project and stabilization of operations is key rating sensitivity factor.

### **Exposure to regulatory risks, 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, 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 jute bags for packaging of sugar and food grains for consignments of 26-100 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. Also, conditions of the act are diluted as substitutes such as plastic bags are available at 30-50% lower prices. Besides, the government occasionally permits reuse of jute sacks for storage of food grains, affecting sales. Additionally, the government is the largest consumer of jute sacks in the domestic market, accounting for nearly 60% of demand.

### **Liquidity: Strong**

Net cash accruals in range Rs 70-110 crore per fiscal is expected to be sufficient against nil repayment obligation in fiscals 2024-25. Repayment obligation on term loan contracted for the expansion capex is scheduled to commence in fiscal 2025 with repayments estimated at Rs 30 crore. Average utilization of working capital bank limit of Rs 80 crore was around 17% during 12 months through December 2022. Additionally, the group had sizeable liquid investments in form of equity investments and free cash bank balances of Rs 188 crore as on March 31, 2022, estimated to be at least around Rs 130 crore as on March 31, 2023 which enhance the liquidity position and provides necessary financial flexibility. Current ratio is estimated to be healthy around 5 times as on March 31, 2023.

### **Outlook: Stable**

CRISIL Ratings believes the Gloster group will continue to benefit from its established market position in the jute industry, backed by a diversified and value-added product portfolio, and strong networth.

### **Rating Sensitivity Factors**

#### **Upward factors**

- Substantial growth in revenue and volumetric sales coupled with sustenance of operating margin around 15-16% leading to significantly higher net cash accruals
- Timely completion and stabilization of capex, supporting the capital structure and enhancing revenue generation

#### **Downward factors**

- Adverse impact of regulatory changes, leading to decline in revenue and profitability below 10%

- Substantial time and cost overruns in the project and/or large dividend payout exerting pressure on financial risk profile, also leading to significant dilution of liquidity position

### **About the Group**

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Gloster Nuvo Limited is a wholly owned subsidiary of Gloster Ltd. Gloster Nuvo was incorporated in January 2020 for enhancing jute production capacity of Gloster Group. Commercial operation of the unit is expected to commence in fiscal 2025.

### **Key Financial Indicators**

Particulars	Unit	2022	2021
Revenue	Rs crore	750	502
Profit After tax (PAT)	Rs crore	65	41
PAT margin	%	8.7	8.2
Adjusted debt/adjusted networkth	Times	0.01	0.04
Interest coverage	Times	87.94	41.77

**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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7 to 365 Days	50	Simple	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	5	NA	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	1	NA	CRISIL A1+
NA	Cash Credit	NA	NA	NA	5	NA	CRISIL A+/Stable
NA	Cash Credit	NA	NA	NA	54	NA	CRISIL A+/Stable
NA	Cash Credit	NA	NA	NA	9	NA	CRISIL A+/Stable
NA	Cash Credit	NA	NA	NA	15	NA	CRISIL A+/Stable
NA	Letter of Credit	NA	NA	NA	3	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	10	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	11	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	4	NA	CRISIL A1+
NA	Proposed Cash Credit Limit	NA	NA	NA	17	NA	CRISIL A+/Stable
NA	Working Capital Demand Loan	NA	NA	NA	16	NA	CRISIL A+/Stable

### **Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Gloster Limited	Full	Parent

Gloster Nuvo Limited	Full	100% subsidiary
Gloster Lifestyle Limited	Full	100% subsidiary
Gloster Specialities Limited	Full	100% subsidiary
Fort Gloster Industries Limited	Full	100% subsidiary
Network Industries Limited	Full	100% subsidiary

### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	116.0	CRISIL A+/Stable		--	30-04-22	CRISIL A+/Stable	31-12-21	CRISIL A+/Stable	30-12-20	CRISIL A+/Stable	CRISIL A+/Stable
Non-Fund Based Facilities	ST	34.0	CRISIL A1+		--	30-04-22	CRISIL A1+	31-12-21	CRISIL A1+	30-12-20	CRISIL A1+	CRISIL A1+
Commercial Paper	ST	50.0	CRISIL A1+		--	30-04-22	CRISIL A1+	31-12-21	CRISIL A1+	30-12-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	5	YES Bank Limited	CRISIL A1+
Bank Guarantee	1	State Bank of India	CRISIL A1+
Cash Credit	5	ICICI Bank Limited	CRISIL A+/Stable
Cash Credit	54	State Bank of India	CRISIL A+/Stable
Cash Credit	9	Bank of Baroda	CRISIL A+/Stable
Cash Credit	15	HDFC Bank Limited	CRISIL A+/Stable
Letter of Credit	3	Bank of Baroda	CRISIL A1+
Letter of Credit	10	State Bank of India	CRISIL A1+
Letter of Credit	11	YES Bank Limited	CRISIL A1+
Letter of Credit	4	ICICI Bank Limited	CRISIL A1+
Proposed Cash Credit Limit	17	Not Applicable	CRISIL A+/Stable
Working Capital Demand Loan	16	YES Bank Limited	CRISIL A+/Stable

This Annexure has been updated on 28-Apr-2023 in line with the lender-wise facility details as on 25-Aug-2022 received from the rated entity.

### 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="#">CRISILs Bank Loan Ratings</a>
<a href="#">The Rating Process</a>
<a href="#">Rating Criteria for Hybrid Capital instruments issued by banks under Basel II guidelines</a>
<a href="#">CRISILs Criteria for Consolidation</a>
<a href="#">CRISILs Criteria for rating short term debt</a>

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