

Press Release

Gloster Limited

June 07, 2022

Rating Assigned



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 116.00 | ACUITE AA- Stable Assigned | - |
| Bank Loan Ratings | 34.00 | - | ACUITE A1+ Assigned |
| Total Outstanding Quantum (Rs. Cr) | 150.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned the long-term rating of Acuite AA- (**read as ACUITE Double A minus**) and short-term rating of **ACUITE A1+** (**read as ACUITE A one plus**) on the Rs 150.00 Cr bank facilities of Gloster Limited (Gloster Group). The outlook is 'Stable'.

The rating reflects Gloster group's healthy business profile along with strong operational performance during the last two financial years. The group has an established presence in the jute industry supported by its long operational track record, wide product profile, dominant market share and diversified geographical presence in both domestic and the export markets. The rating also factors in the group's robust financial risk profile marked by sound net worth and conservative capital structure. Further the group has a solid liquidity position as reflected from its strong accruals and high cash & bank balances. These rating strengths are however, partially offset by the agriculture based and the regulated nature of jute industry.

About the Company

Gloster Limited was incorporated in 1923 as Kettlewell Bullen & Company Ltd. In 1954, the company was acquired by Kolkata based Bangur family. The jute division was demerged into a separate entity and renamed as Gloster Limited in 1992. The company is engaged in the manufacture of various kind of jute & jute allied products such as hessian, yarn, sacking woven & non-woven jute geo textiles, treated fabric-rot proof, fire retardant, hydrocarbon free jute bags, Jute leno fabrics and lifestyle products such as floor covering, furnishing, fabrics etc. The company has also added new technical products namely bags & madeup, laminated jute fabrics etc. The manufacturing unit is located in Howrah, West Bengal. Currently, the company is managed by Mr. Hemant Bangur who is the Executive Chairman.

About the Group

Gloster Nuvo Ltd was formed in January 2020 to set up an integrated jute mill at Bauria,

Howrah. The project cost for setting the mill is around Rs 313 Cr which will be funded through Rs 233 Cr of external debt and remaining Rs 80 Cr from promoter contribution.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Gloster Ltd (Gloster), Gloster Lifestyle Limited (GLL), Gloster Specialties Limited (GSL), Gloster Nuvo Limited (GNL), Network Industries Limited (NIL) and Forte Gloster Industries Limited (FGIL). The consolidation is in view of GLL, GSL, NIL, GNL and FGIL being fully owned subsidiaries of Gloster. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

Sound business profile marked by vintage and strong market position

Gloster Limited has an operational record of around hundred years as the company is operational since 1923. In 1954, Kolkata based Bangur family acquired the company. The group caters to both domestic and overseas markets such as USA, European Union, Middle East countries, Australia, Japan among others. The company has three major product segments namely Hessian & sacking, Yarn, and diversified jute products. Government sacking contributes nearly 30 percent of total revenue which is a regulated business. The group has wide product profile which caters to various industries such as FMCG, Agricultural products, Fashion Textile etc. The current management has more than six decades of experience in the jute business.

Strong revenue growth prospects over the medium term

The group has registered a revenue of Rs 733 Cr in FY22 as against Rs 502 Cr in FY21 because of the growth in both sale volume and average realization of jute products. In FY22, the domestic market contributes to around 70 percent of revenue and remaining 30 percent from overseas markets. Part of domestic market is governed by Jute Packaging Material Act, 1987 which states 100 percent of food grains and 20 percent of sugars need to be compulsorily packed in jute bags. Such a regulatory framework has been supportive of the jute industry and mitigates the offtake risk. The group has undertaken a large expansion plan in GNL to enhance its production capacity. In Phase I, group will add a capacity of 92 tons per day envisaging a capex of Rs 252 Cr which is likely to be operational by Q4FY23. In Phase II, the group will add another capacity of 46 tons per day involving a capex of Rs 61 Cr. The capacity in Phase II is expected to be operational by Q4FY24. The entire capex programme will be funded through a mix of debt and equity in 3:1 ratio. Acuité expects the group to record healthy revenue growth over the medium term backed by capacity addition and healthy order flow from the overseas markets.

Robust financial metrics

The financial risk profile of the group is marked by high net worth, negligible gearing ratio and strong debt protection metrics. The net worth of the group has improved to Rs 784 Cr in FY2022 from Rs.686 Cr in FY2021. The gearing of the group was negligible at 0.01 times as on March 31, 2022 as compared to 0.04 times as on March 31, 2021. The group has low dependence on debt as reflected from its minimal utilization of fund based limits. TOL/TNW stood at 0.22 times in FY22 as against 0.23 times in FY21. Interest coverage ratio (ICR) stood strong at 107 times in FY2022 as against 48 times in FY 2021. Net Cash Accrual/Total debt stood healthy at 9.62 times in FY22 as against 3.04 times in FY21. Acuité believes that the financial risk profile of the group will remain robust over the medium term despite their debt funded capex plans, given its strong cash accruals.

Healthy profitability margin

The group has healthy profit margin as EBITDA margin stood at 13.04 percent in FY22 as against 16.49 percent in FY21 and 13.68 percent in FY20. The moderation in their profit margins

in FY22 was mainly due to a decline in profit in Q4FY22 due to a notification issued by the Jute Commissioner on September 30, 2021 fixing the maximum price of raw jute(MPP) at Rs. 6500 per quintal for the most commonly used TD-5 variety. The Government calculates the cost of production and selling price to them for sacks based on the MPP. The actual price raw jute have hovered at around Rs. 7000-7500 per quintal during the period thereby leading to losses in supply to government agencies. The Government of India has however, vide a recent notification removed the upper ceiling which will help the group to sustain its profit margin over the medium term.

Business diversification plan

The group is planning to enter into industrial cable business through FGIL. The group had acquired FGIL from NCLT against a consideration of Rs 72 Cr. The group had undertaken a capex plan of Rs 53.70 Cr as per resolution plan to upgrade and modernize the manufacturing facility of FGIL. In second tranche, the group will incur additional capex of Rs 25 Cr which will be funded through promoter contribution. The same is expected to be operational by Q4FY23. This will diversify the group's overall business profile and improve the revenue mix.

Weaknesses

Agriculture-based Industry

Jute is an agricultural product, and its supply is highly dependent on weather conditions. The dependency leads to variations in prices and quality from season to season. Considering raw material cost is a major component of the total cost, any price rise affects the profitability of jute companies.

Working capital intensive operations

The group has high working capital intensity as evident from its high gross current asset (GCA) days of 109 days in FY22 as 171 days in the previous year. The high GCA days are due to high inventory days because of seasonal availability of raw jute. However, in FY22 there is a decline in inventory days to 81 days from 132 days in FY21 because of shortage of raw jute. Debtor days stood comfortable at 15 days in FY22 as against 23 days in FY21. Acuité believes that the operations of the group will continue to be working capital intensive over the medium term.

Rating Sensitivities

- Timely completion of planned capital expenditure
- Substantial improvement in profitability margins along with sustained revenue growth
- Any unwarranted regulatory changes

Material covenants

None

Liquidity Profile: Strong

The company has superior liquidity profile as reflected from low utilization of its fund based limits which stood at 9 percent during last 12 months ended April 2022. The company maintained high unencumbered cash & cash equivalent of around Rs 89 Cr as on 31 March 2022. The net cash accruals of the company stood strong at around Rs. 99.64 Cr. in FY2022 as against Rs 74 Cr in FY21. Going forward, the cash accruals are expected to be in the range of Rs. 98-106 Cr as compared to loan repayments of around Rs. 5.00 Cr. from FY2023-24. The current ratio of the company stood comfortable at 4.34 times as on March 31, 2022 as against 3.34 times as on March 31, 2021. However, working capital requirement of the company is high as reflected from its GCA days of 109 days in FY22 as against 171 days in FY21. Acuité expects the liquidity position of the company to remain strong in spite of major debt funded capex plans due to high cash & bank balance and steady accruals.

Outlook : Stable

Acuite believes that the Gloster group will benefit over the medium term from the promoters' vast experience in the business of jute products and robust financial risk profile. The outlook may be revised to 'Positive' if the group sustains their revenue growth with sustained improvement in profit margin. Conversely, the outlook may be revised to 'Negative' if the group witnesses significant deterioration in financial risk profile or liquidity profile due to higher than expected debt led capex plan.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 733.82 | 502.67 |
| PAT | Rs. Cr. | 65.28 | 41.26 |
| PAT Margin | (%) | 8.90 | 8.21 |
| Total Debt/Tangible Net Worth | Times | 0.01 | 0.04 |
| PBDIT/Interest | Times | 107.66 | 48.12 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

None

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|----------------------|------------------|----------------|----------------|-------------------|--------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A1+ Assigned |
| Yes Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A1+ Assigned |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE AA- Stable Assigned |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 34.00 | ACUITE AA- Stable Assigned |
| Yes Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 16.00 | ACUITE AA- Stable Assigned |

| | | | | | | | |
|---------------------|----------------|----------------------|----------------|----------------|----------------|-------|--------------------------------|
| ICICI Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE AA- Stable Assigned |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE AA- Stable Assigned |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE AA- Stable Assigned |
| ICICI Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | ACUITE A1+ Assigned |
| Yes Bank Ltd | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 11.00 | ACUITE A1+ Assigned |
| Bank of Baroda | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE A1+ Assigned |
| State Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A1+ Assigned |
| Not Applicable | Not Applicable | Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 17.00 | ACUITE AA- Stable Assigned |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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