March 17, 2022

Ganesha Ecosphere Limited: Ratings reaffirmed and removed from Watch with Developing Implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Working capital limits	135.00	135.00	[ICRA]A; reaffirmed and removed from Watch with Developing Implications; Stable outlook assigned
Long-term/Short-term - Interchangeable^	(37.50)	(37.50)	[ICRA]A/[ICRA]A1; reaffirmed and removed from Watch with Developing Implications; Stable outlook assigned
Short-term - Non-fund Based Limits	23.50	23.50	[ICRA]A1; reaffirmed; removed from Watch with Developing Implications
Long-term/Short-term – Unallocated	54.50	54.50	[ICRA]A/[ICRA]A1; reaffirmed and removed from Watch with Developing Implications; Stable outlook assigned
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-1* *^sublimit of working capital limits*

Rationale

The removal of GEL's ratings from Watch with Developing Implications follows the company's demonstrated ability to minimise the impact of a fire incident on its operations. GEL's ratings were placed on Watch with Developing Implications in June 2021 following a fire incident at the company's polyester staple fibre unit at Kanpur, Uttar Pradesh. While the insurance claim for the loss suffered is yet to be approved, the losses have not materially impacted the company's financial risk profile. Further, notwithstanding the access to the curtailed capacity (with ~10% capacity damaged due to the incident), GEL has been able to minimise disruptions and achieve optimum utilisation on the available capacity. Together with a robust increase in realisations and a low base effect, this has supported a healthy recovery in the company's performance in the current fiscal so far. This apart, the ratings reaffirmation factors in a comfortable progress on the company's greenfield project under its subsidiaries. While the capex exposes the company to the associated project execution and operational risks, it is likely to bolster GEL's operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. The financing risk for the project has been mitigated to a large extent with the sanction of the term debt. The company's internal accruals/ liquid balances are likely to be adequate to fund the equity margin requirements for the project. Despite a transitory increase in the financial leverage because of the ongoing capex, ICRA expects the company's consolidated coverage metrics to remain comfortable, supported by the provision of adequate moratorium and ballooning repayment structure on the new term debt.

The ratings also continue to draw strength from the established track record of GEL with its diversified presence in the textile industry, supported by the promoters' extensive experience and its large scale of operations, which provide benefits of economies of scale. The ratings, however, continue to be constrained by the susceptibility of GEL's profitability to volatility in virgin PSF (VPSF) prices, particularly in a declining price scenario. Further, the company is exposed to raw material availability and pricing risk, which is heightened by increasing domestic RPSF capacities, as well as regulatory developments in the recent years such as the ban on importing of polyethylene terephthalate (PET) waste. Though the company has demonstrated its ability to maintain its operating margins despite pressure on the contribution margins in the past, its ability to do so on a consistent basis, remains imperative. In this context, ICRA draws comfort from the company's established sourcing network for PET waste and a diversified client base, which have consistently supported healthy capacity utilisation level and steady profitability over the years.

The Stable outlook on the long-term rating reflects ICRA's opinion that a sustained healthy capacity utilisation and steady operating margins would support the company's ability to generate healthy cash profits, thereby supporting coverage metrics, while the company commissions and ramps up its greenfield capacities.

Key rating drivers and their description

Credit strengths

Leading market position among RPSF manufacturers – GEL continues to be the largest manufacturer of RPSF in the domestic market with an installed capacity of 1,08,600 metric tonnes per annum (MTPA). Supported by its large scale of operations, which results in economies of scale and augments bargaining power with suppliers, the company has demonstrated healthy and range-bound profitability over the years. GEL's proposed greenfield capital expenditure (capex), involving a more than 20% increase in its RPSF capacity to ~133,800 MTPA, is expected to bolster its operational strengths in the medium term, with a stronger market position, enhanced product portfolio and a wider geographical footprint. This apart, the company has expanded its roof-top solar power capacity at its factory premises to reduce the power cost.

Strong operational profile – GEL has a strong operational profile, characterised by a long track record of over two decades in the industry, large scale of operations, track record of repeat business from a diversified client base and an established supplier network. The resultant heathy utilisation of its installed capacities, over the years, has facilitated a compounded average growth rate of over 10% in GEL's revenues during the last 10 years (FY2011-FY2021).

Comfortable debt coverage indicators – Limited reliance on debt in the recent years, together with range-bound and healthy profitability, have enabled the company to maintain healthy debt coverage indicators. With a sizeable ongoing debt-funded capex under its subsidiaries, the company's consolidated financial leverage is increasing. Nevertheless, the ballooning repayment structure and the provision for adequate moratorium for the debt being availed in subsidiaries are expected to keep the company's consolidated debt coverage indicators comfortable, despite some moderation from the current levels.

Credit challenges

Sizeable project risks arising from ongoing capacity expansion under subsidiaries– Although the ongoing greenfield capacity expansion under the subsidiaries is expected to strengthen GEL's consolidated operational profile, it is exposed to execution and stabilisation risks in the near term. The risks are heightened considering the company's venture into a new, more regulated segment of food-grade PET resins, which is exposed to regulatory risks considering the stringent quality requirements. Its ability to get all the requisite approvals in a timely manner and ensure healthy scale-up of operations, will remain crucial for its return and coverage metrics, going forward. With respect to the project execution risks, ICRA draws comfort from the company's demonstrated track record of successful implementation and ramp-up of the past capacity expansions.

Increasing consolidated leverage because of the debt-funded capex being undertaken – The company is undertaking a sizeable greenfield capex under subsidiaries involving an estimated capital outlay of around Rs. 453 crore, being funded through a debt of Rs. 325 crore and promoters' contribution of Rs. 128 crore. Given this, the company's consolidated financial leverage is increasing, as reflected in an estimated gearing (Total Debt/ Tangible Net Worth) and Total Debt/ OPBDITA of 0.76 times and 3.64 times, respectively as on March 31, 2022 (estimated), compared to 0.25 times and 1.50 times, respectively as on March 31, 2021. It is noted that GEL's capital structure has remained conservative in the past. Notwithstanding the increase in the financial leverage in FY2022 owing to the ongoing capex, ICRA expects the same to start improving from FY2023, with the commissioning of the project.

Susceptibility of profitability to volatility in realisations – GEL's profitability is susceptible to volatility in VPSF prices, particularly in a declining price scenario. While RPSF realisations are driven by movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), GEL's raw material (PET waste) costs are led by its own demand-supply dynamics. Accordingly, the flexibility available with the company to pass on any increase in raw material costs is limited.

Raw material procurement and pricing risk – GEL's ability to sustain healthy capacity utilisation levels by ensuring regular availability of PET waste at competitive prices is crucial for its profitability. Given the increasing RPSF capacities in the country as well as GEL's own manufacturing capacities, the company is exposed to increasing raw material procurement and pricing risks. The risk is heightened by the regulatory developments in the recent years involving imposition of ban on import of PET waste, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations, which allows bulk procurements as well as its organised and extensive sourcing network, mitigates the risk to a large extent.

Liquidity position: Adequate

GEL's liquidity position is adequate, corroborated by a cushion of ~Rs. 60 crore in its fund-based working capital limits as on January 31, 2022, and an average cushion of Rs. 41 crore in its fund-based limits (equivalent to ~33% of its sanctioned limits) for the six-month period that ended on January 31, 2022. GEL has limited repayment obligations of about ~Rs. 20-25 crore per annum in the near to medium term. ICRA expects the company's cash accruals to be sufficient for servicing the debt repayment obligations, as well as for funding equity margin requirements for working capital as well as the ongoing capex. While a significant outlay is expected towards the ongoing capex under subsidiaries, sanctions for the debt component would also support the company's liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade GEL's ratings if successful commissioning of the new project helps in achieving a sustained increase in its scale of operations and profitability from an enhanced product portfolio. Additionally, core ROCE of over 17.5% and Debt/OPBDITA of less than 2 times, on a sustained basis, may trigger ratings upgrade.

Negative factors – Sizeable cost and time overrun in the ongoing project, which affects the company's capitalisation and coverage metrics could be triggers for ratings downgrade. Sustained pressure on revenues and profitability leading to a DSCR of less than 2.0 times, on a sustained basis, could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GEL. As on March 31, 2021, GEL had two wholly-owned subsidiaries, that are enlisted in Annexure-2.

About the Company

Incorporated in October 1987 as Ganesh Polytex Limited, the company was renamed as Ganesha Ecosphere Limited (GEL) in October 2011. The company primarily manufactures recycled polyester staple fibre and spun yarn. The company is listed on the Bombay Stock Exchange (BSE) as well as on the National Stock Exchange (NSE). GEL commenced production from FY1988 with the texturising and dyeing of polyester filament yarn at its manufacturing unit in Kanpur (Uttar Pradesh) with an installed manufacturing capacity of 391 MT per annum (MTPA). In FY1995, GEL diversified into manufacturing RPSF from PET bottle waste with an initial capacity of 6,000 MTPA in Kanpur. Over the years, the company has expanded its texturising and RPSF manufacturing capacities and has also forward integrated into manufacturing spun yarn from RPSF. As on March 31, 2021, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturised yarn in Kanpur, 108,600 MTPA of RPSF in Kanpur, Bilaspur (Uttar Pradesh) and Rudrapur (Uttarakhand), and 7,200 MTPA of spun yarn (25,920 spindles) in Bilaspur. At present, GEL has the largest capacity for manufacturing RPSF in the domestic market.

In November 2019, GEL incorporated a wholly-owned subsidiary, Ganesha Ecopet Private Limited[1] for setting up a greenfield project for manufacturing RPSF, recycled partially oriented/ fully draw yarn and recycled PET resin from PET scrap bottles, in Warangal (Telangana). In November 2020, GEL incorporated another wholly-owned subsidiary, Ganesha Ecotech Private Limited and transferred the washing line component of GEPL's project to this entity.

Key financial indicators

GEL's Consolidated Financials	FY2020	FY2021
Operating Income (Rs. crore)	888.83	751.14
PAT (Rs. crore)	63.88	45.19
OPBDIT/OI (%)	12.67%	11.28%
PAT/OI (%)	7.19%	6.02%
Total Outside Liabilities/Tangible Net Worth (times)	0.39	0.44
Total Debt/OPBDIT (times)	0.82	1.50
Interest Coverage (times)	14.48	9.73

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Current Rating (FY2022)		Chronology of Rating History for the past 3 years				
					Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
					Mar 17, 2022	Jun 30, 2021	-	Mar 11, 2020	Jan 25, 2019	May 21, 2018	Apr 06, 2018
1	Working capital limits	Long Term	135.00	-	[ICRA]A (Stable)	[ICRA]A&	No Rating Change	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Interchangeable	Long Term /Short Term	(37.50)	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A&/ [ICRA] A1&	No Rating Change	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
3	Non-Fund based limits	Short Term	23.50	-	[ICRA]A1	[ICRA]A1&	No Rating Change	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term/ Short Term	54.50	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A&/ [ICRA] A1&	No Rating Change	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

&: placed on watch with developing implications

[1] ICRA has [ICRA]A-(Stable) rating outstanding for the Rs. 280-crore bank lines of Ganesha Ecopet Private Limited. For details, please refer to ICRA's website – www.icra.in

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/Working capital	Simple
Long-term/Short-term - Interchangeable^	Very Simple
Short-term - Non-fund-based limits	Very Simple
Long-term/Short-term – Unallocated	Not Applicable

^sub-limit of working capital limit

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based - Working capital limits	-	-	-	135.00	[ICRA]A (Stable)
NA	Long term/Short term – Interchangeable	-	-	-	(37.50)	[ICRA]A (Stable)/[ICRA]A1
NA	Short term – Non-Fund based limits	-	-	-	23.50	[ICRA]A1
NA	Long term/Short term – Unallocated	-	-	-	54.50	[ICRA]A (Stable)/[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	GEL Ownership	Consolidation Approach
Ganesha Ecopet Private Limited	100.00%	Full Consolidation
Ganesha Ecotech Private Limited	100.00%	Full Consolidation

Source: *Company*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 983 6198 660
kaushikd@icraindia.com

Nidhi Marwaha
+91 124 4545 337
nidhim@icraindia.com

Preeti Rana
+91 999 6245 275
preeti.rana@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches