June 30, 2023

Ganesha Ecopet Private Limited: Long-term rating reaffirmed and short-term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based limits/TL	280.00	213.00	[ICRA]A- (Stable); reaffirmed
Long Term - Fund Based limits/CC	-	57.00	[ICRA]A- (Stable); reaffirmed
Short Term – Non-Fund based/BG/LC/SBLC	-	10.00	[ICRA]A2+; assigned
Total	**280.00**	**280.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the successful implementation of the greenfield project that Ganesha Ecopet Private Limited (GEPL) was undertaking, and a healthy continued performance of its parent entity (Ganesha Ecosphere Limited or GEL) in FY2023. Most of the units have started commercial production and only one unit is pending completion, which would commence commercial operations from June 2023. While the capex has resulted in some deterioration in coverage indicators and is yet to see ramp-up, it is likely to boost the Group's operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. ICRA expects GEL'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 GEPL's strong parentage, with GEL having a strong operational and a comfortable financial risk profile. GEPL is expected to receive significant operational, financial and management support from GEL. GEPL is likely to benefit from the operational synergies as GEL has been operating in the industry for over three decades, has a large scale of operations, which provide benefits of economies of scale, along with a demonstrated track record of getting repeat business from a diversified clientele and uninterrupted access to raw materials from an established supplier network. This is more so considering its leading market position as the largest manufacturer of recycled polyester staple fibre (RPSF) in the country, which is likely to be strengthened with the greenfield expansion under GEPL and Ganesha Ecotech Private Limited (GETL). This, together with the shared brand name, reflects GEPL's strategic significance to its parent. ICRA has also noted that the bank facilities of subsidiaries are backed by a corporate guarantee from GEL, which enjoys strong financial flexibility, indicating the extent of financial support available from the parent during the operational phase.

The Stable outlook on the rating reflects ICRA's expectation of continued operational and financial support from the parent. Further, GEL's track record of setting up large projects is expected to enable the company to efficiently ramp up operations, and remain self-sufficient in meeting its debt servicing obligations, post commissioning of operations.

Key rating drivers and their description

Credit strengths

Strong parentage; parent entity having a leading market position among Indian RPSF manufacturers – The rating derives comfort from the strong operational and financial risk profiles of GEPL's parent entity, its established track record of over three decades and leading market position in the domestic RPSF sector. GEL is the largest manufacturer of RPSF in the country (installed capacity of ~96,600 MTPA [decreased from 1,08,600 MTPA in FY2022 owing to the loss of capacity by a fire incident]).

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 financial risk profile is characterised by comfortable leverage and coverage indicators and an adequate liquidity position. Despite the absence of a track record for GEPL, the rating draws support from the strong operational and financial inter-linkages of GEPL with its parent entity, its common management, as well as high strategic importance of the project for the Group.

Eligibility for fiscal incentives to lower effective cost of debt – Apart from the long repayment tenure and step-up repayment schedule, the projects under GEPL and GETL will be eligible for fiscal incentives in the form of interest subsidy to the extent of ~75%, which will lower the effective cost of debt, and in turn support its debt coverage metrics.

Credit challenges

Exposure to operational risks – The project remains exposed to operational risks as the company's ability to profitably ramp up operations after launch remains to be seen. Nevertheless, GEL's existing track record in the industry and its established supplier network and customer base, are likely to partially mitigate risks related to raw material procurement and marketing risks, respectively, for GEPL. The marketing risks are also partially addressed by the favourable prospects of recycled materials, particularly in the international/ export markets, owing to increasing focus on reducing plastic waste and increasing commitments of large brands towards usage of recycled materials in various end-product segments.

Susceptibility of profitability to raw material procurement cost and volatility in realisations – GEPL's product profile comprises recycled polyester staple fibre (RPSF), partially oriented yarn (POY) and recycled PET resin, which are manufactured from PET bottle waste. While RPSF realisations are driven by movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), its profitability will remain susceptible to volatility in VPSF prices, particularly in a declining price scenario. On the other hand, the raw material for RPSF is PET waste, which has its own demand supply dynamics. Thus, the profitability will remain vulnerable to GEPL's ability to manage the raw material costs as well as the spread between the realisations and raw material costs.

Raw material procurement and pricing risks – 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 considering the regulatory developments in the recent years involving the imposition of ban on import of PET waste, PET flakes, etc, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations allowing bulk procurements, as well as its organised and extensive sourcing network, partially mitigate the risk.

Liquidity position: Adequate

GEPL's liquidity profile is adequate, supported by the healthy liquidity of its parent entity, GEL. The liquidity position of GEPL is expected to be adequate in the near term as the project has been commissioned in a timely manner. GEL has limited repayment obligations of about Rs. 13-24 crore per annum (consolidated) in the near-to-medium term owing to the ballooning repayment structure. However, ICRA expects the cash accruals to be sufficient for servicing the debt repayment obligations.

Rating sensitivities

Positive factors – Successful ramp-up of the recently commissioned capex, which results in a sustained improvement in the company's financial risk profile, will be a positive trigger for the rating.

Negative factors – Pressure on GEPL's rating could arise if a delay in ramp-up affects the company's return and coverage metrics. Further, weakening of linkages with GEL or weakening of the credit profile of the parent entity would be negative triggers for GEPL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit parent or group support
Parent/Group support	Parent/Group Company: Ganesha Ecosphere Limited ICRA expects GEPL's parent, GEL [rated [ICRA]A (Stable)/[ICRA]A1], to be willing to extend financial support to GEPL, should there be a need, given the high strategic importance of GEPL for the parent for meeting its diversification objectives. Both GEL and GEPL share a common name, which in ICRA's opinion would persuade GEL to provide financial support to GEPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the consolidated business and financial risk profiles of GEPL and GETL, factoring in the support from GEL as mentioned above.

About the company

Ganesha Ecopet Private Limited (GEPL), a wholly-owned subsidiary of Ganesha Ecosphere Limited, was incorporated in November 2019 for setting up a greenfield project for manufacturing of Recycled Polyester Staple Fibre, Recycled Partially Oriented Yarn and Recycled PET Resin. The project has been set up at Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 47,400 tonnes per annum.

Further, GEL incorporated one more subsidiary named, Ganesha Ecotech Private Limited (GETPL), in November 2020, for setting up washed PET flakes and Polypropylene Staple Fibre unit. The project has been set up at Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 35,000 tonnes per annum for washed PET flakes and 10,500 tonnes per annum for polypropylene staple fibre (PPSF).

Key financial indicators (audited)

GEL's Consolidated Financials	FY2022	FY2023
Operating income	1021.4	1179.6
PAT	62.0	69.5
OPBDIT/OI	11.2%	10.8%
PAT/OI	6.1%	5.9%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	3.1	4.0
Interest coverage (times)	11.7	7.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 30, 2023	-	Mar 17, 2022	Nov 9, 2020
1	Fund Based limits/TL	Long Term	213.00	213.00	**[ICRA]A- (Stable)**	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund Based limits/CC	Long Term	57.00	-	**[ICRA]A- (Stable)**	-	-	-
3	Non-Fund based/BG/LC /SBLC	Short Term	10.00	-	**[ICRA]A2+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based limits/TL	Simple
Long Term - Fund Based limits/CC	Simple
Short Term – Non-Fund based/BG/LC/SBLC	Very Simple

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund Based limits/TL	2020	NA	2033	213.00	[ICRA]A- (Stable)
NA	Long Term - Fund Based limits/CC	NA	NA	NA	57.00	[ICRA]A- (Stable)
NA	Short Term – Non-Fund based/ BG/LC/SBLC	NA	NA	NA	10.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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