September 26, 2024

Ganesha Ecopet Private Limited: Ratings reaffirmed/assigned for enhanced amount; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	57.00	50.00	[ICRA]A-(Positive); reaffirmed and outlook revised to Positive from Stable
Long term – Fund-based - Term loan	213.00	252.52	[ICRA]A-(Positive); reaffirmed/assigned for enhanced amount and outlook revised to Positive from Stable
Long term/Short term – Unallocated	0.00	0.48	[ICRA]A-(Positive)/[ICRA]A2+; assigned
Short term – Non-fund based - Bank guarantee	10.00	10.00	[ICRA]A2+; reaffirmed
Total	**280.00**	**313.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to positive for Ganesha Ecopet Private Limited (GEPL) factors in the successful completion and commencement of the greenfield capacities established under GEPL that has improved the operating and financial performance in the last two quarters, and a continuing strong financial and business risk profile of its parent entity - Ganesha Ecosphere Limited or GEL, rated [ICRA]A (Positive)/A1. All the units started their commercial production in FY2024 with the latest production line of recycled polyethylene terephthalate (PET) granules beginning commercial production in July 2024. ICRA expects GEPL to demonstrate a healthy capacity utilisation for the newly commissioned production lines from FY2025.

While the capex has deteriorated the coverage indicators and the operations are yet to see a full 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 a 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. It is likely to benefit from the operational synergies as GEL has been operating in the industry for over three decades and has a large scale of operations, besides having a demonstrated track record of getting repeat business from a diversified clientele and uninterrupted access to raw materials from an established supplier network. Its leading market position as one of the largest manufacturers of recycled polyester staple fibre (RPSF) in the country has 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 the subsidiaries are backed by a corporate guarantee from GEL, indicating the extent of financial support available from the parent during the operational phase.

The ratings, however, continue to be constrained by the declining revenue and the susceptibility of GEL’s and GEPL’s profitability to the volatility in virgin polyester staple fibre (VPSF) prices, particularly in a declining price scenario. Further, the company is exposed to raw material availability and pricing risks, which are heightened by increasing domestic recycling polyethylene terephthalate (PET) waste capacities, as well as the regulatory developments in recent years, such as the ban on importing of PET waste.

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 its leading market position in the domestic RPSF sector. GEL is the largest manufacturer of RPSF in the country {installed capacity of ~96,600 metric tonnes per annum (MTPA) at a standalone level and 1,09,200 MTPA at consolidated level}. The Group has demonstrated healthy and range-bound profitability over the years, supported by its large scale of operations, which results in economies of scale and augments the bargaining power with suppliers. 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 ratings draw support from the strong operational and financial inter-linkages of GEPL with its parent entity, its common management, as well as the high strategic importance of the project for the Group.

Group profit seen to rise with completion of capital expenditure and expected ramp-up – The greenfield expansion under GEPL and GETL has been completed, enabling the Group to diversify and expand into the manufacturing of various recycled products like RPSF, recycled PET granules (food grade, bottle grade and textile grade), recycled PET filament yarn, virgin PSF and washed PET flakes. A large part of this capacity addition is towards recycled PET granules of 42,000 MTPA, which is expected to be the largest contributor to top-line of GEPL and will have better margins as it will be primarily used in the food and beverages, textile and packaging industries by renowned brands such as Coca Cola and Varun Beverages. Based on the trends in the last two quarters, the capacity utilisation is expected to increase and reach an optimal level in FY2025, thereby improving the earnings of the Group from this fiscal.

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 are eligible for fiscal incentives in the form of interest subsidy of up to ~75%, which lowers the effective cost of debt and supports the debt coverage metrics.

Credit challenges

Moderate debt coverage indicators; improvement expected in current fiscal, both at the company and group level – At present, GEPL coverage indicators remain moderate as the entire debt has been drawn for the current capex. A significant ramp-up in capacity and cash flows is underway and is expected to accrue from the current fiscal. A healthy utilisation of the capacity is expected to strengthen the financial risk profile of GEPL as well as the Group at a consolidated level, wherein ICRA expects the coverage indicators to improve with total debt/OPBDITA of less than 2 times and interest cover of more than 5 times in FY2025.

Susceptibility of profitability to raw material procurement cost and volatility in realisations – GEPL's product profile comprises RPSF, filament yarn and recycled PET granules/chips/resin, which are manufactured from PET bottle waste. Major contribution of revenue is expected from recycled PET granules/ chips/ resin followed by RPSF. Raw material for recycled PET granules/ chips/ resin and RPSF is PET waste, which has its own demand-supply dynamics. Further, RPSF realisations are driven by the movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), its profitability will remain susceptible to the volatility in VPSF prices, particularly in a declining price scenario. Thus, the profitability will remain vulnerable to GEPL's ability to manage raw material costs as well as the spread between the realisations and raw material costs.

Raw material procurement and pricing risks – The company is exposed to increasing raw material procurement and pricing risks, given the increasing capacities for recycling PET waste in the country as well as GEL's own manufacturing capacities. The risk is heightened by the regulatory developments in recent years involving the imposition of ban on the 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. 21-36 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 – A successful ramp-up of the recently commissioned capex, which would result in a sustained improvement of the company's financial risk profile, would be a positive trigger for the rating. Further, strengthening of the credit profile of the parent entity would be a positive trigger for GEPL's ratings.

Negative factors – Pressure on GEPL's rating could arise if a delay in the 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 the negative triggers for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Ganesha Ecosphere Limited ICRA expects GEPL's parent, GEL [rated [ICRA]A (Positive)/[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 to meet 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 recycled polyester staple fibre, recycled partially oriented yarn and recycled PET granules/resin. The project has been set up at Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 66,840 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 a polypropylene staple fibre unit. The project has been set up at Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 10,800 tonnes per annum for polypropylene staple fibre (PPSF). It also houses capacity for washed PET flakes for in-house consumption.

Key financial indicators (audited)

GEL's Consolidated Financials	FY2023	FY2024
Operating income	1,179.6	1,122.9
PAT	69.5	40.6
OPBDIT/OI	10.9%	12.3%
PAT/OI	5.9%	3.6%
Total outside liabilities/Tangible net worth (times)	1.1	0.5
Total debt/OPBDIT (times)	3.9	2.9
Interest coverage (times)	7.6	3.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

GEPL's Standalone Financials	FY2023	FY2024
Operating income	-	105.1
PAT	-0.2	-12.7
OPBDIT/OI	-	11.5%
PAT/OI	-	-12.1%
Total outside liabilities/Tangible net worth (times)	20.5	291.1
Total debt/OPBDIT (times)	-227.6	42.0
Interest coverage (times)	-18.4	0.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2025) Type	Amount rated (Rs crore)	Sep 26, 2024	Chronology of rating history for the past 3 years FY2024 Date	FY2024 Rating	FY2023 Date	FY2023 Rating	FY2022 Date	FY2022 Rating
Fund-based - Cash credit	Long term	50.00	[ICRA]A- (Positive)	Jun 30, 2023	[ICRA]A- (Stable)	-	-	Mar 17, 2022	[ICRA]A- (Stable)
Fund-based - Term loan	Long term	252.52	[ICRA]A- (Positive)	Jun 30, 2023	[ICRA]A- (Stable)	-	-	-	-
Unallocated	Long term/short term	0.48	[ICRA]A- (Positive)/ [ICRA]A2+	-	-	-	-	-	-
Non-fund based - Bank guarantee	Short term	10.00	[ICRA]A2+	Jun 30, 2023	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Cash credit	Simple
Long term – Fund-based - Term loan	Simple
Long term/Short term – Unallocated	Not Applicable
Short term – Non-fund based - Bank guarantee	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	252.52	[ICRA]A- (Positive)
NA	**Long term – Fund-based limits/CC**	NA	NA	NA	50.00	[ICRA]A- (Positive)
NA	**Short term – Non-fund based/BG/LC/SBLC**	NA	NA	NA	10.00	[ICRA]A2+
NA	**Long term/Short term - Unallocated**	NA	NA	NA	0.48	[ICRA]A-(Positive)/ [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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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.

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