April 11, 2017

Ganesha Ecosphere Limited

Instrument*	**Rated Amount (in Rs. crore)**	Rating Action
Long-term – Fund-based term loan facilities	71.1^	[ICRA]BBB+ reaffirmed; Outlook revised from 'Stable' to 'Positive'
Long-term – Fund-based working capital facilities	101.5	
Long term non-fund –based facilities	1.6^^	
Short-term – fund- based facilities	3.5	[ICRA]A2+ reaffirmed
Short-term –non-fund based facilities	10.2^^	
Long-term/ Short-term – Unallocated	25.1^^	[ICRA]BBB+ reaffirmed; Outlook revised from 'Stable' to 'Positive'/ [ICRA]A2+ reaffirmed
Total	**213.0**	

Source: ICRA
^ *reduced from Rs. 108 crore earlier*
^^ *increased from Nil earlier*
*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the ratings outstanding for the Rs. 213.0-crore[1] bank facilities of Ganesha Ecosphere Limited (GEL) at [ICRA]BBB+ (pronounced ICRA triple B plus)[2] on the long-term scale and [ICRA]A2+ (pronounced ICRA A two plus) on the short-term scale. The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Detailed rationale

A revision in the outlook to positive takes into account the expectation of continued improvement in GEL's operating performance with enhanced utilisation of its recently installed capacities. This, coupled with stable and healthy profitability and reduced debt-repayment obligations in the medium term from FY2019 onwards, are expected to strengthen the company's credit profile going forward. In addition, scaling down and phasing out of the planned capex over FY2018-2019, when the existing debt burden is scheduled to reduce significantly, is also expected to result in lower-than- previously anticipated peak debt levels in March 2018, thereby indicating a better-than-estimated overall credit profile. Besides, the ratings continue to derive strength from the company's healthy operational profile characterised by consistent capacity utilisation, which in turn is driven by an established and diversified client base, its dominant position in the market as one of the largest manufacturers of Recycled Polyester Staple Fiber (RPSF) and its strong sourcing network for PET (Polyethylene Terephthalate) waste. Besides, the company enjoys a comfortable financial profile characterised by healthy and stable operating margins which in turn support its debt metrics as reflected in Debt/OPBDITA of ~1.8 times and gearing (Total outside liabilities to net worth) of less than 1 times in 9M FY2017. Although with increase in the

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

company’s scheduled debt-repayment obligations in FY2017 and FY2018, some moderation is being noticed in the debt-servicing indicators, these continue to remain comfortable. Moreover, liquidity profile remains comfortable as reflected in average utilisation of ~52% of available fund-based working capital limits for 9MFY2017.

The ratings, however, continue to be constrained by the susceptibility of GEL’s profitability to volatility in Virgin Polyester Staple Fiber (VPSF) prices, particularly in a declining price scenario. While the RPSF realisations are at a discount to the VPSF prices (which in turn are driven by crude oil and cotton prices), GEL’s raw material (PET waste) cost is driven by its own demand-supply dynamics. The company has demonstrated its ability to lower its raw material procurement cost during FY2016 and 9MFY2017 to prevent a steep fall in its contribution margins despite a persistent decline in realisations which provides comfort. However, its ability to do so in a timely manner and on a consistent basis remain crucial for profitability of its operations. Moreover, the profitability of RPSF manufacturers is also vulnerable to change in the indirect tax structure under the proposed GST regime, as RPSF enjoys a concessional excise duty rate which improves its competitiveness over VPSF.

Going forward, GEL’s ability to commission the planned capacity enhancement in a timely manner and optimum utilisation of its enhanced capacities by ensuring regular availability of PET waste bottle at competitive prices, will remain pertinent for its contribution margins and hence debt-coverage indicators. In this context, with proposed implementation of new plastic waste management rules, the supply-side dynamics for domestic pet-waste sourcing are expected to change. However, the steps being taken by the company to source PET waste directly from the producers provide some comfort. Further, timing, funding and scale of any incremental capex, and the company’s ability to maintain working capital requirements at comfortable levels, would also be crucial determinants of its liquidity and credit profile and thus will remain the rating sensitivities.

Key rating drivers

Credit Strengths

- Largest domestic manufacturer of RPSF which results in operational efficiencies on account of economies of scale and facilitates raw material procurement at favourable terms
- Track record of two decades in the RPSF industry with an established and reasonably diversified client base
- Established sourcing network for PET waste with demonstrated ability to scale up procurement with increase in scale of operations and maintain contribution margins by reducing raw material procurement cost in times of decline in RPSF realisations
- Strong financial profile on account of consistent and healthy operating profitability which has kept the profits and accruals adequate in relation to the debt-servicing obligations
- Comfortable liquidity profile which renders additional support to the credit profile in terms of a surplus cash cushion

Credit Weaknesses

- Sizeable debt-funded capital expenditure plans proposed to be implemented over FY2018-2019
- Sizeable scheduled repayment burden in the near term due to ballooning structure of installments for the existing debt, nevertheless long repayment tenure for incremental debt, with moratorium of two years provides comfort

- Susceptibility of profitability to volatility in VPSF prices, as the company’s realisations and raw material costs move independently. Nevertheless, the company’s demonstrated ability to maintain contribution margins in times of declining realisations, provides comfort
- Vulnerability to change in excise duty structure on RPSF, which can have an adverse impact the company’s net realisations and hence profitability
- With the government’s focus on increasing domestic recycling of pet waste, the company’s ability to maintain regular supply of PET bottle waste and maintain the contribution margin will be critical to maintain the capacity utilisation and financial profile

Detailed description of key rating drivers:

GEL is the largest manufacturer of RPSF in the country, and one of the few large players having a demonstrated track record of healthy and stable profitability, supported by its ability to prevent a sharp decline in contribution margins despite pressure on RPSF realisations by reducing its raw material procurement cost. This in turn is supported by the presence of a strong sourcing network for PET waste which the company has established over the years. Presence of an established procurement network has also helped the company to get seamless supplies for the capacity expansion undertaken in its RPSF segment over the years which together with steady demand from an established and a reasonably diversified client base, has facilitated satisfactory capacity utilisation levels. Consequently, GEL continues to report healthy and consistent operating profit margins, which results in comfortable accruals in relation to its debt obligations, as reflected in a DSCR (debt service coverage ratio) of 1.4 times in 9M FY2017. Although the company has sizeable debt repayment obligations of ~Rs. 35 crore in FY2018 which is expected to result in some moderation in debt-coverage indicators, these are expected to remain comfortable. Moreover, the liquidity profile of GEL has been supported by regular equity infusion in the past, and continues to remain comfortable as reflected in ~52% utilisation on an average of its fund-based limits during 9MFY2017.

However, GEL is in the process of implementing a large debt-funded capex of ~Rs. 120 crore for doubling its capacities at the Bilaspur (Uttar Pradesh) unit thereby increasing the overall capacity by ~24% which will further strengthen its operational profile. While GEL had planned the said capex for ~Rs. 160 crore for augmenting the capacities by 36,000 MTPA, debt drawdown of Rs. 100 crore for the same was expected to reflect on its March 2017 balance sheet. Now, calibration of the capex over FY2018-FY2019 when the existing debt burden is also significantly reduced is expected to result in lower-than-expected peak debt level in March 2018. Though, ICRA does not envisage any adverse impact of the said capex on the company’s capitalisation indicators; the company’s ability to implement the same without cost or time overruns and stabilisation of the same while keeping the debt metrics comfortable remains crucial for its overall credit profile. Going forward, though GEL is contemplating another large capex for setting up a manufacturing unit in South India, the plans for the same are at a nascent stage; timing, scale and funding mix of the capex will remain a rating monitorable.

Analytical approach:- Ratings are arrived at based on detailed evaluation of rated entity’s business and financial risk profile.

Links to applicable criteria:

- Corporate Credit Rating Methodology
  http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf

ICRA

About the company:

Incorporated in October 1987 as Ganesh Polytex Limited, the name of the company was changed to Ganesha Ecosphere Limited (GEL) in October 2011. GEL commenced production in FY1988 with texturising and dyeing of polyester filament yarn at its manufacturing unit in Kanpur (Uttar Pradesh) with an installed capacity of 391 MT per annum (MTPA). In FY1995, GEL diversified into manufacturing of recycled polyester staple fibre (RPSF) from PET (Polyethylene terephthalate) waste bottle 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 of spun yarn from RPSF.

As on December 31, 2016, GEL had a total installed capacity of 3,000 MTPA of texturising in Kanpur, 87,600 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 RPSF in the domestic market.

Status of non-cooperation with previous CRA:

- CRISIL Ltd. suspended the CRISIL BB+(Stable) rating on Rs. 34.35-crore term loan of Ganesh Polytex Ltd. (erstwhile name of Ganesha Ecosphere Ltd.) in September 2011. The suspension reflected CRISIL’s inability to maintain a valid rating in the absence of information from the company.
- India Ratings and Research suspended the IND BBB+/ Stable long-term issuer rating and IND BBB+/Stable/IND A2+ rating assigned to the bank facilities of Ganesha Ecosphere Ltd. in October 2016. The ratings were suspended due to lack of adequate information.

Any other information: Not Applicable

Rating history for last three years:
Table: Rating History

S. No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs.-crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				April 2017	**Apr' 2016**	**Mar' 2015**	**-**
1	Fund-based term loan facilities	Long-term	71.1	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Fund-based working capital facilities	Long-term	101.5^	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Non-fund – based facilities – Bank guarantee	Long-term	1.6	[ICRA]BBB+ (Positive)	-	[ICRA]BBB+ (Stable)	-
4	Fund- based facilities- Stand-by LC	Short-term	3.5	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	-
5	Non-fund based facilities- Letter of Credit	Short-term	10.2	[ICRA]A2+	-	[ICRA]A2	-
6	Long-term/ Short-term – Unallocated	Long-term/ Short-term	25.1	[ICRA]BBB+ (Positive)/ [ICRA]A2+	-	-	-
	Total		**213.0**				

^ Cash Credit limits are interchangeable to the extent of Rs. 23 crore with short-term fund-based limits (EPC/FBP) carrying a short-term rating of [ICRA]A2+. In case the limits are availed as short term facilities, the short term rating will be applicable.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan-I	--	--	Mar-18	21.7	[ICRA]BBB+ (Positive)
Term Loan-II	--	--	Mar-18	4.5	[ICRA]BBB+ (Positive)
Term Loan-III	--	--	Dec-19	31.1	[ICRA]BBB+ (Positive)
Term Loan-IV	--	--	Mar-18	3.9	[ICRA]BBB+ (Positive)
Term Loan-V	--	--	Mar-21	9.9	[ICRA]BBB+ (Positive)
Fund based working capital limits	--	--	--	101.5	[ICRA]BBB+ (Positive)
Non-fund –based facilities –Bank guarantee	--	--	--	1.6	[ICRA]BBB+ (Positive)
Fund- based facilities- Stand-by LC	--	--	--	3.5	[ICRA]A2+
Non-fund based facilities- Letter of Credit	--	--	--	10.2	[ICRA]A2+
Long-term/ Short-term – Unallocated	--	--	--	25.1	[ICRA]BBB+ (Positive)/ [ICRA]A2+
Total	--	--	--	**213.00**	

Name and Contact Details of the Rating Analyst(s):

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

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

Annu Mendiratta
+91 124 4545 887
annu.mendiratta@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	