November 24, 2017

Ganesha Ecosphere Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term – Fund-based term loan facilities	71.1	[ICRA]A-; upgraded from [ICRA]BBB+; Outlook revised from 'Positive' to 'Stable'
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]A-; upgraded from [ICRA]BBB+; Outlook revised from 'Positive' to 'Stable'/[ICRA]A2+ reaffirmed
Total	**213.0**	

Source: ICRA
*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the rating outstanding for the Rs. 174.2-crore[1] long-term bank facilities of Ganesha Ecosphere Limited (GEL) from [ICRA]BBB+ (pronounced ICRA triple B plus)[2] earlier to [ICRA]A- (pronounced ICRA A minus). ICRA has reaffirmed the ratings at [ICRA]A2+ (pronounced ICRA A two plus) for Rs 13.7-crore short-term bank facilities. Ratings for Rs 25.1-crore bank facilities remain interchangeable within short-term and long-term. The outlook on the long-term rating has been revised from 'Positive' to 'Stable'.

Detailed rationale

The rating upgrade takes into account continuing improvement in GEL's operational and financial risk profile supported by gradual improvement in utilization of its existing capacities, its demonstrated ability to maintain profitability as well as significant (~15-20%) scale-down of its ongoing capex which has resulted in reduced reliance on debt thereby lowering projected peak debt level for the company. Lower debt together with reduced scheduled debt-repayment obligations from FY2019 onwards, are expected to further strengthen company's credit profile going forward. Besides, project implementation risks for the company stand reduced considering reasonable progress on its ongoing brownfield capex, which is expected to commence operations well within the budgeted time estimates.

ICRA notes that the effective tax rate for RPSF manufacturers has increased under the new GST regime vis-à-vis the earlier tax regime, which has brought RPSF manufacturers at par with the VPSF manufacturers in terms of taxation, thereby reducing their price competitiveness. While the impact was visible in a marginal YoY de-growth in company's turnover in Q2 FY2018, economies of scale resulting from company's dominant position in the market as one of the largest manufacturers of RPSF, presence of an established and diversified client base together with its increasing focus on superior quality products which enjoy higher substitutability with virgin PSF, are expected to help the company withstand

[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

increased competitive pressures. Further, presence of a strong sourcing network for PET (Polyethylene Terephthalate) waste and healthy bargaining power as reflected in demonstrated ability to pass on part of impact to suppliers in the form of reduced procurement cost, provide comfort with respect to company's ability to consistently operate at healthy capacity utilization levels while maintaining profitability. This is also corroborated by the stable operating margins reported by the company in Q2 FY2018 vis-à-vis last year despite a decline in turnover. In addition, 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 ~1.95 times and gearing (Total outside liabilities to net worth) of ~1 times in H1FY2018. Moreover, liquidity profile remains comfortable as reflected in average utilisation in the range of ~50-60% of available fund-based working capital limits for FY2017 and 5MFY2018.

In ICRA's view, GEL's ability to commission the planned capacity in a timely manner and optimum utilisation of its enhanced capacities despite increased tax incidence by ensuring regular availability of PET waste bottle at competitive prices, will remain pertinent for its contribution margins and hence debt-coverage indicators. 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

- **Large scale of operations which results in operational efficiencies on account of economies of scale and facilitates raw material procurement at favourable terms-**GEL, having an installed capacity of ~87,600MTPA (estimated to increase to ~108,600 MTPA) for RPSF, is the largest manufacturer of RPSF in the country. Supported by its large scale of operations which results in economies of scale, the company has demonstrated healthy and stable profitability over the years. Besides, the company has also demonstrated its ability to prevent a sharp decline in contribution margins in times of pressure on RPSF realisations by reducing its raw material procurement cost.

- **Track record of over two decades in the RPSF industry which has facilitated creation of a strong supplier as well as client network -** With a track record of over two decades in the industry, GEL has established a strong procurement network as well as a reasonably diversified client base. While the supplier network has helped the company get seamless supplies for its enhanced capacity over the years, steady demand from the established client base has facilitated satisfactory capacity utilisation levels and scale up of operations.

- **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 -** 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 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, with significant reduction in repayment obligations from FY2019 onwards, the debt servicing indicators are expected to improve further.

- **Comfortable liquidity profile -** GEL's liquidity profile continues to be comfortable as reflected in average utilisation of fund-based limits at~50-60% during FY2017 and 5MFY2018. Going forward, company's ability to maintain comfortable liquidity position remains crucial for its credit profile, in light of anticipated increase in working capital requirements upon commencement of operations for the enhanced capacity and some timing gap involved in availability of input credits under GST.

- **Reasonable progress on planned capex; expected to commence operations within budgeted time and cost estimates-** The progress on planned capex of ~Rs 100 crore (reduced from ~Rs 120 crore earlier) has been comfortable with ~40% of the planned outlay already expensed till June 2017 and remaining expected to be completed within scheduled time. Commencement of operations well within the scheduled timelines is expected to strengthen company's operational profile.

Credit Weaknesses

- **Sizeable scheduled repayment burden in the near term-** Owing to ballooning structure of installments for the existing debt, the repayment obligations in near term (FY2018) are sizeable. This reduces the cushion available for margin funding in view of ongoing capex. Nevertheless, comfortable progress on the capex, availability of adequate debt funding, moratorium of two years on the project debt and long repayment tenure provide comfort. Moreover, the repayment obligations will significantly reduce from FY2019 onwards thereby supporting the credit profile.

- **Susceptibility of profitability to volatility in realisations–** GEL's profitability is susceptible to volatility in Virgin Polyester Staple Fiber (VPSF) prices, particularly in a declining price scenario. While RPSF realisations are driven by movement in 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. Although the company has demonstrated its ability to lower its raw material procurement cost in times of declining realisations, its ability to do so in a timely manner and on a consistent basis remain crucial for profitability of its operations.

  Further, there has been a change in effective tax rates for RPSF under the new GST regime (~12% GST is being levied on RPSF and ~5% on PET Waste) which has resulted in an increase in effective tax rate (net of input credit) for RPSF manufacturers compared to the earlier tax structure (without Cenvat). This has brought RPSF manufacturers at par with the VPSF manufacturers in terms of taxation, thereby reducing their price competitiveness. Going forward, GEL's ability to ensure optimum utilisation of its enhanced capacities despite increased tax incidence as well as ensure regular availability of PET waste bottle at competitive prices, will remain pertinent for its contribution margins and hence debt-coverage indicators.

Analytical approach: - Ratings are arrived at based on detailed evaluation of rated entity's business and financial risk profile, using the following rating methodology.

Links to applicable criteria:
Corporate Credit Rating Methodology

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 September 30,2017, 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.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	647.3	674.2
PAT (Rs. crore)	24.9	29.9
OPBDIT/ OI (%)	11.4%	11.8%
RoCE (%)	14.4%	16.6%
Total Debt/ TNW (times)	0.8	0.6
Total Debt/ OPBDIT (times)	2.1	1.8
Interest coverage (times)	3.6	5.3
NWC/ OI (%)	18%	19%

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 and subsequently withdrawn in October 2017 on receipt of no-objection certificates from the lenders.

Any other information: Not Applicable

Rating history for last three years:
Table: Rating History

S. No	Name of Instrument	Current Rating (2018)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs.-crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Nov' 2017	Mar' 2017	Apr' 2016	Mar' 2015
1	Fund-based term loan facilities	Long-term	71.1	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based working capital facilities	Long-term	101.5^	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund –based facilities – Bank guarantee	Long-term	1.6	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	-	[ICRA]BBB+ (Stable)
4	Fund-based facilities-Stand-by LC	Short-term	3.5	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5	Non-fund based facilities-Letter of Credit	Short-term	10.2	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2
6	Long-term/ Short-term – Unallocated	Long-term/ Short-term	25.1	[ICRA]A- (Stable) / [ICRA]A2+	[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	--	--	Mar-18	21.7	[ICRA]A- (Stable)
Term Loan	--	--	Mar-18	4.5	[ICRA]A- (Stable)
Term Loan	--	--	Dec-19	31.1	[ICRA]A- (Stable)
Term Loan	--	--	Mar-18	3.9*	[ICRA]A- (Stable)
Term Loan	--	--	Mar-21	9.9	[ICRA]A- (Stable)
Fund based working capital limits	--	--	--	101.5	[ICRA]A- (Stable)
Non-fund –based facilities –Bank guarantee	--	--	--	1.6	[ICRA]A- (Stable)
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]A- (Stable) / [ICRA]A2+
Total	--	--	--	**213.00**	

*The TL has since been repaid

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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.

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.

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