Ganesha Ecosphere Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan facilities	67.2	25.3	[ICRA]A-(Stable); reaffirmed
Long-term fund-based working capital facilities	101.5	125.0	[ICRA]A-(Stable); reaffirmed
Long term non-fund-based bank facilities	1.6	--	--
Short-term -fund- based bank facilities	3.5	3.5	[ICRA]A2+; reaffirmed
Short-term non-fund-based bank facilities	10.2	23.5	[ICRA]A2+; reaffirmed
Long-term/Short-term– Unallocated	29.0	35.7	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Total	**213.0**	**213.0**	

Rating action

ICRA has reaffirmed the ratings outstanding for the Rs. 213-crore[1] bank facilities of Ganesha Ecosphere Limited (GEL) at [ICRA]A- (pronounced ICRA A minus) 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 is Stable[2].

Rationale

The ratings continue to factor in GEL's healthy operational and financial risk profile, supported by consistently healthy utilisation of its existing capacities, its demonstrated ability to maintain profitability as well as timely completion of its ongoing capex, within the envisaged cost and time estimates.

Given the recent enhancement in capacities, GEL's ability to maintain its capacity utilisation levels by getting seamless supplies of PET (Polyethylene Terephthalate) bottle waste at competitive prices in the backdrop of increasing domestic recycling capacity will remain critical for its profitability and debt-coverage indicators. ICRA, however, derives comfort from GEL's dominant position in the domestic market as one of the largest manufacturers of Recycled Polyester Staple Fibre (RPSF), which together with its established operational track record has facilitated creation of a strong sourcing network for PET waste, besides a diversified client base. ICRA expects enhanced capacity in the RPSF segment to boost the company's operational profile by strengthening its bargaining power with the key suppliers for bulk purchases. Further, the expansion is expected to provide the company benefits of economies of scale, while expanding its presence in superior-quality products which enjoy higher substitutability with virgin PSF (VPSF). This is particularly crucial post implementation of the Goods and Services Tax (GST), as GST has brought RPSF manufacturers at par with the VPSF manufacturers in terms of taxation, thereby reducing the former's price competitiveness which existed earlier.

[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

The ratings, however, continue to be constrained by the susceptibility of GEL's profitability to volatility in VPSF prices, particularly in a declining price scenario. While the RPSF realisations are linked to 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. Though the company has demonstrated its ability to maintain contribution margins in times of declining realisations by passing on a part of the impact to suppliers in the form of reduced procurement cost, its ability to do so in a timely manner on a consistent basis remains a concern.

ICRA notes that during 9MFY2018, GEL reported a healthy ~10% YoY growth in revenues and steady profitability margins at ~11-12%. Though transition to GST has resulted in a short-term impact in the form of slowdown in demand from some segments, resulting in inventory build-up and in turn incremental working-capital requirements, the overall liquidity profile continues to remain comfortable. Also, financial flexibility rendered by availability of enhanced working capital limits is expected to ensure smooth operations despite temporary disruption. Moreover, with steady accruals and significantly lower annual debt-repayment obligations, the overall debt-coverage indicators are expected to remain comfortable.

In ICRA's view, GEL's ability to achieve optimum utilisation of its enhanced capacities by ensuring regular availability of PET bottle waste 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.

Outlook: Stable

A Stable outlook reflects ICRA's expectation that GEL will maintain its comfortable credit profile supported by healthy utilisation of its enhanced capacities, at steady contribution margins. Moreover, liquidity profile is expected to remain comfortable, supported by adequate drawing power. The outlook may be revised to positive in case of significant improvement in financial risk profile, driven by improvement in profitability and working-capital cycle. The outlook may be revised to negative in case of a considerable decline in revenues and operating profitability, a stretched working capital cycle, or a large debt-funded capital expenditure which results in deterioration in the financial risk profile.

Key rating drivers

Credit strengths

Large scale of operations facilitates economies of scale – With recent expansion in RPSF capacity by ~21,000 MTPA commissioned in February 2018, GEL continues to be the largest manufacturer of RPSF in the country. Supported by its large scale of operations which results in economies of scale and supports bargaining power with suppliers, the company has demonstrated healthy and stable profitability over the years.

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 scaling up of operations.

Healthy financial profile characterised by comfortable debt-servicing indicators and liquidity profile – Supported by healthy and consistent operating profit margins, the company has comfortable debt-coverage indicators, as reflected in a DSCR (debt service coverage ratio) of 1.4 times in FY2017. Further, with repayment obligations declining to ~Rs. 15-18 crore from FY2019, vis-a-vis ~Rs. 36 crore in FY2018, debt-coverage indicators are expected to remain comfortable.

Further, GEL's liquidity profile continues to be comfortable. Though there has been an increase in average utilisation of fund-based limits to ~70% during 11M FY2018, compared to ~52% over the corresponding period in FY2017, it has been on account of increase in scale as well as short-term sales impact of GST which resulted in build-up of inventory. Nevertheless, availability of adequate undrawn working-capital limits as well as sufficient cushion in accruals ensure a comfortable liquidity profile.

Credit weaknesses

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 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.

Increased competition from VPSF – Under the earlier tax regime, RPSF used to have a price advantage over VPSF because of lower taxation. However, the effective tax rate for RPSF manufacturers has increased under the new GST regime, reducing price competitiveness. While the impact was visible in a marginal YoY de-growth in the company's turnover in Q2 FY2018, it has been able to largely withstand the short-term challenges posed by the same. The company's ability to maintain volumetric growth and profitability, given the increased competition from VPSF, remains to be seen.

Raw material procurement risk - Given the increased capacities, GEL's ability to sustain healthy capacity utilisation levels (by ensuring regular availability of PET waste at competitive prices in the backdrop of increasing domestic recycling capacity and thereby maintaining contribution margins) will be pertinent. Domestic PET waste availability is also affected by regulatory risks pertaining to its imports, though GEL's reliance on domestic sourcing and its collection efficiency mitigate the risk to a large extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Textiles Industry–Spinning

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. The company primarily manufactures recycled polyester staple fibre (RPSF) and spun yarn. The company is listed on the Bombay Stock Exchange (BSE) as well as the National Stock Exchange (NSE).

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 RPSF from PET (Polyethylene terephthalate) 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 of spun yarn from RPSF.

As on December 31, 2017, GEL had a total installed capacity of 3,000 MTPA of texturising in Kanpur, 1,08,600 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)

	FY 2016	FY 2017
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%

Note: OI: Operating Income; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital (Current Assets less Current Liabilities)

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+ ratings 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: None

Rating history for last three years:

			Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr 18	Date & Rating in FY2018 Nov/Dec-2017	Date & Rating in FY2017 Mar-2017	Apr-2016	Date & Rating in FY2016	Date & Rating in FY2015 Mar-2015
1	FB term loan facilities	LT	25.3	25.3^	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	No Rating change	[ICRA]BBB+ (Stable)
2	FB working capital facilities	LT	125.0	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	No Rating change	[ICRA]BBB+ (Stable)
3	FB facilities- Stand-by LC	ST	3.5	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	No Rating change	[ICRA]A2
4	NFB- Letter of Credit	ST	23.5	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	No Rating change	[ICRA]A2
5	Unallocated	LT/ ST	35.7	--	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2+	-	No Rating change	[ICRA]BBB+ (Stable)/ [ICRA]A2
	Total		**213.0**	--						

^Outstanding as on March 30,2018

Note: LT: Long Term; ST: Short Term

FB: Fund-based; NFB: Non-fund-based

Fund-based working capital limits /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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	January 18, 2017	--	FY2027	25.3	[ICRA]A- (Stable)
NA	Fund based working capital limits	--	--	--	125.0	[ICRA]A- (Stable)
NA	Fund- based facilities- Stand-by LC	--	--	--	3.5	[ICRA]A2+
NA	Non-fund-based facilities- Letter of Credit	--	--	--	23.5	[ICRA]A2+
NA	Long-term/ Short-term – Unallocated	--	--	--	35.7	[ICRA]A- (Stable) / [ICRA]A2+

Source: Ganesha Ecosphere Limited

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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.

For more information, visit www.icra.in

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