Ganesha Ecosphere Limited

May 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based bank facilities (Term Loans)	25.34	25.34	[ICRA]A-(Positive); reaffirmed, outlook revised from Stable
Long term fund-based bank facilities (Working Capital)	125.00	125.00	[ICRA]A-(Positive); reaffirmed, outlook revised from Stable
Fund-based/ non-fund based short-term bank facilities	(23.00)	(23.00)	[ICRA]A2+; reaffirmed
Short term fund- based bank facilities	3.50	3.50	[ICRA]A2+; reaffirmed
Short-term non-fund-based bank facilities	23.50	23.50	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated	35.66	35.66	[ICRA]A-(Positive)/ [ICRA]A2+; reaffirmed, outlook revised from Stable
Total	**213.00**	**213.00**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has revised the outlook on the long-term rating outstanding for the bank facilities of Ganesha Ecosphere Limited (GEL) to Positive from Stable. It has reaffirmed the long-term and short-term ratings for the Rs. 213-crore[1] bank facilities of the company at [ICRA]A- (pronounced ICRA A minus) and [ICRA]A2+ (pronounced ICRA A two plus), respectively[2].

Rationale

The revision in outlook to Positive factors in successful consummation of a Rs.100-crore Qualified Institutional Placement (QIP) issue by the company which is expected to strengthen its financial profile, given the management's stated intent of deploying a large part of proceeds towards reduction in debt levels, besides regular capital expenditure requirements. This, together with the expected improvement in scale of operations and profits with stabilisation of the recently-enhanced capacity, is expected to further strengthen the company's capitalisation and debt coverage indicators. Further, the ratings continue to be underpinned by GEL's dominant position in the domestic market as one of the largest manufacturers of Recycled Polyester Staple Fibre (RPSF). This, along with its established operational track record, has facilitated in creation of a strong sourcing network for PET (Polyethylene Terephthalate) waste and a diversified client base. A healthy operational profile has helped the company maintain a consistently healthy capacity utilisation level over the years and a steady profitability.

[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.

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, 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 rating sensitivities. Besides, timing, scale and funding of any large debt-funded capex or acquisition will warrant a reassessment of GEL's credit profile.

Outlook: Positive

A Positive outlook reflects ICRA's expectation that a part of QIP proceeds will be used towards reduction in debt levels, which together with improvement in scale and profits with stabilisation of enhanced capacities, are expected to contribute materially towards improvement in the company's credit metrics and liquidity profile. The outlook may be revised to Stable if the company leverages the enhanced equity base to undertake a sizeable debt-funded capital expenditure or acquisition, which results in the company's capitalisation and coverage indicators to revert closer to the previously anticipated levels.

Key rating drivers

Credit strengths

Large scale of operations facilitates economies of scale – With an installed capacity of 108,600 metric tonnes per annum (MTPA), including the 21,000-MTPA expansion 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 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; strong supplier and 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 an estimated DSCR (debt service coverage ratio) of 1.25 times in FY2018. 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 improve in the near to medium term. The extent of improvement will be more if the company uses a part of QIP proceeds towards debt reduction, in line with the stated intent. Further, infusion of fresh equity has strengthened the company's 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) costs are 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 y-o-y 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 on 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)

	FY2016	FY2017	9M FY2018 (Unaudited)
Operating Income (Rs. crore)	647.3	674.2	543.3
PAT (Rs. crore)	24.9	29.9	25.5
OPBDIT/ OI (%)	11.4%	11.8%	11.6%
RoCE (%)	14.4%	16.6%	17.0%
Total Debt/ TNW (times)	0.8	0.6	0.8
Total Debt/ OPBDIT (times)	2.1	1.8	2.5
Interest coverage (times)	3.6	5.3	6.5
NWC/ OI (%)	18%	19%	22%

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:

	Instrument	Type	Current Rating (FY2019) Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating May-18	Date & Rating Apr-18	Chronology of Rating History for the past 4 years: Date & Rating in FY2018 Nov/Dec-17	Date & Rating in FY2017 Mar-17	Apr-16	Date & Rating in FY2016 --	Date & Rating in FY2015 Mar-2015
1	FB facilities: Term Loan	LT	25.34	25.3^	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB + (Positive)	[ICRA]BB B+ (Stable)	No Rating change	[ICRA] BBB+ (Stable)
2	FB facilities: Working Capital	LT	125.00	--	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Stable)	No Rating change	[ICRA] BBB+ (Stable)
3	FB/NFB Working capital	ST	(23.00)	--	[ICRA]A2+	[ICRA]A 2+	[ICRA]A2+	[ICRA]A2+	[ICRA] A2+	No Rating change	[ICRA]A2
4	FB facilities	ST	3.50	--	[ICRA]A2+	[ICRA]A 2+	[ICRA]A2+	[ICRA]A2+	[ICRA] A2+	No Rating change	[ICRA]A2
5	NFB facilities	ST	23.50	--	[ICRA]A2+	[ICRA]A 2+	[ICRA]A2+	[ICRA]A2+	-	No Rating change	[ICRA]A2
6	Unallocated	LT/ ST	35.66	--	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable) /[ICRA] A2+	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]BBB + (Positive)/ [ICRA]A2+	-	No Rating change	[ICRA] BBB+ (Stable)/ [ICRA]A2
	Total		**213.00**	--							

^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	25.34	[ICRA]A- (Positive)
NA	Fund based working capital limits	--	--	--	125.00	[ICRA]A- (Positive)
NA	Short-term working capital limits	--	--	--	(23.00)	[ICRA]A2+
NA	Fund- based facilities- Stand-by LC	--	--	--	3.50	[ICRA]A2+
NA	Non-fund-based facilities- Letter of Credit	--	--	--	23.50	[ICRA]A2+
NA	Long-term/ Short-term Unallocated	--	--	--	35.66	[ICRA]A-(Positive) / [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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