September 30, 2024

# Ganesha Ecosphere Limited: Ratings reaffirmed; 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 | 152.21 | 174.50 | [ICRA]A(Positive); reaffirmed; outlook revised to Positive from Stable |
| Long term – Fund-based - Term loan | 22.29 | 0.00 | - |
| Short term – Fund-based - Others | 15.00 | 0.00 | - |
| Short term – Non-fund based - Others | 23.50 | 30.00 | [ICRA]A1; reaffirmed |
| Short term – Non-fund based - Unallocated | 0.00 | 8.50 | [ICRA]A1; reaffirmed |
| **Total** | **213.00** | **213.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in the outlook to Positive for Ganesha Ecosphere Limited (GEL) factors in an expected improvement in the consolidated earnings in FY2025, driven by the successful completion of the greenfield project under the subsidiaries, Ganesha Ecopet Private Limited {GEPL; rated [ICRA]A- (Positive)/A2+} and Ganesha Ecotech Private Limited (GETPL), and a ramp-up of the production capacity. With the commencement of production in the new project lines, GEL's sales and operating profit have improved at a consolidated level in Q3 and Q4 of FY2024 and Q1 of FY2025. The expected ramp-up of the newly commissioned facilities would further strengthen the operating profile by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. Consequently, the consolidated financial performance is expected to significantly improve as the new facilities are more efficient, and the new product portfolio is more margin accretive. The leverage (TD/OPBDITA) and coverage indicators are also expected to improve in the current fiscal on the back of higher profitability.

ICRA also notes that the company has been able to raise ~Rs. 500-crore equity – Rs. 350 crore through a qualified institutional placement (QIP) and Rs. 150 crore through the issuance of equity share warrants (25% of warrants already received and the balance to be received in FY2026), which has been partly used to deleverage the balance sheet of GEL and also support the funding of the recent greenfield expansion at GEL and GETPL and other projects envisaged by the management in future. This has reduced the Group's total debt by more than Rs. 100 crore in FY2024 and has improved the capitalisation and coverage indicators for the consolidated entity in FY2024.

ICRA expects the company's consolidated coverage metrics to improve further due to healthy capacity utilisation, thereby improving the profitability and reducing the overall debt, going forward, with the repayment of the existing term debt. Moreover, the ratings continue to derive strength from the established track record of GEL with its diversified presence in the textile industry, supported by the promoters' extensive experience of more than three decades, and its large scale of operations, which provides the benefit of economies of scale. Consistent healthy capacity utilisation over the years, facilitated by repeat business from a diversified client base, and uninterrupted access to raw materials from an established supplier network provides comfort.

The ratings, however, continue to be constrained by the declining revenue and the susceptibility of GEL'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 recycled polyester staple fibre (RPSF) capacities, as well as regulatory developments in recent years, such as the ban on the import of polyethylene terephthalate

(PET) waste. This is also reflected in the profitability margins of GEL at a standalone level, which have continued to decline in the last three to four years. However, at the group level, the company has demonstrated its ability to improve its operating margins by diversifying into more value-added products through the recent capex which is likely to boost the contribution margin. GEL's ability to report healthy profitability on a consistent basis remains imperative for the ratings. ICRA also draws comfort from the company's established sourcing network for PET waste and a diversified client base, which have consistently supported healthy capacity utilisation and steady profitability over the years.

## Key rating drivers and their description

### Credit strengths

**Debt protection metrics expected to improve in FY2025 with higher earnings and recent QIP issuance** – After the commencement of production in the new project lines, GEL's sales and operating profit have improved at a consolidated level in the last two quarters of FY2024 and Q1 FY2025. The expected ramp-up of the newly commissioned facilities, which are more efficient and margin-accretive, is likely to significantly improve the margins at the consolidated level. With higher profitability, the leverage (TD/OPBDITA) and coverage indicators are also expected to improve in the current fiscal.

ICRA also notes that the company has been able to raise ~Rs. 500 crore of equity: Rs. 350 crore through a qualified institutional placement (QIP) and Rs. 150 crore through the issuance of equity share warrants (25% of warrants already received and the balance would be received in FY2026), which has been partly used to deleverage GEL's balance sheet and also support the funding of the recent greenfield expansion at GEL and GETPL and other projects envisaged by the management in future. This has reduced the Group's total debt by more than Rs. 100 crore in FY2024 and has led to improved capitalisation and coverage indicators for the consolidated entity in FY2024.

ICRA expects the company's consolidated coverage metrics to improve further due to a healthy traction in the capacity utilisation, leading to an improvement in profitability and a reduction in the overall debt with the repayment of the existing term debt.

**Leading market position among RPSF manufacturers** – GEL continues to be the largest manufacturer of recycled polyester staple fibre (RPSF) in the domestic market with an installed capacity that has been enhanced to 1,09,200 metric tonnes per annum (MTPA) from 96,600 MTPA after the recent greenfield capital expenditure under its subsidiary GEPL. GEL continues to be one of the players having a significant market share in India for manufacturing RPSF. The company has demonstrated a 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. The increase in the RPSF capacity is expected to boost its operational strengths in the medium term, with a stronger market position, enhanced product portfolio and a wider geographical footprint.

**Strong operational profile** – GEL has a strong operational profile, characterised by a long track record of over three decades in the industry, its large scale of operations, a track record of repeat business from a diversified client base and an established supplier network. The resultant heathy utilisation of its installed capacities, over the years, has facilitated a compounded average growth rate of over 7% in GEL's revenues in the last 10 years (FY2014-FY2024). Although the company's revenues declined slightly to Rs. 1,123 crore in FY2024 from Rs. 1,180 crore in FY2023, it continues to maintain a healthy volume growth.

**Group profit 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.

## Credit challenges

**Moderate debt coverage indicators at subsidiary level; improvement expected in current fiscal with ramp-up of operations** – At present, GEPL's coverage indicators remain moderate as the entire debt has been drawn for the current capex. A significant ramp-up in capacity and cash flow 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 the Group at a consolidated level, wherein ICRA expects the coverage 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 volatility in realisations** – GEL's profitability is susceptible to the volatility in VPSF prices, particularly in a declining price scenario and also on the availability of PET waste. While RPSF realisations are driven by the movement in VPSF prices (which in turn are dependent on crude oil and cotton prices), GEL's raw material (PET waste) costs are determined by its own demand-supply dynamics. Accordingly, the company has limited flexibility to pass on any increase in raw material costs.

**Raw material procurement and pricing risk** – GEL's ability to sustain healthy capacity utilisation levels by ensuring regular availability of PET waste at competitive prices is crucial for its profitability. The company is exposed to increasing raw material procurement and pricing risks, given the increasing capacities for recycled 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, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations, which allows bulk procurement as well as its organised and extensive sourcing network, mitigates the risk to a large extent.

## Liquidity position: Adequate

GEL's liquidity position is adequate, corroborated by a cushion of more than Rs. 300 crore in its fund-based limits and free cash and bank balances of ~Rs. 147 crore combined as on March 31, 2024. GEL has limited repayment obligations of about ~Rs. 21-36 crore per annum in the near-to-medium term. ICRA expects the cash accruals to be sufficient for servicing the debt repayment obligations of the Group.

## Rating sensitivities

**Positive factors** - ICRA could upgrade GEL's ratings if a successful ramp-up of the recently commissioned capacities helps in achieving a sustained increase in its scale of operations and profitability from an enhanced product portfolio. Additionally, a debt/OPBDITA of less than 2 times, on a sustained basis, may trigger an upgrade.

**Negative factors -** Sustained pressure on revenues and profitability, resulting in a DSCR of less than 2.0 times on a sustained basis, could constrain the ratings. Further, any major debt-funded capex or an increase in the working capital intensity, putting pressure on the liquidity position, could be a negative trigger.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of GEL. As on March 31, 2024, GEL had three wholly-owned subsidiaries, that are enlisted in Annexure-II |

## 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) and 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 million tonnes per annum (MTPA). In FY1995, GEL diversified into manufacturing RPSF from polyethylene terephthalate (PET) 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 the manufacturing of spun yarn from RPSF. As on June 30, 2024, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturised yarn in Kanpur, 96,600 MTPA of RPSF in Kanpur, Bilaspur (Uttar Pradesh) and Rudrapur (Uttarakhand), and 7,200 MTPA of spun yarn (25,920 spindles) at Bilaspur.

At present, GEL has the largest capacity for manufacturing RPSF in the domestic market. On November 19, 2019, GEL incorporated its wholly-owned subsidiary, Ganesha Ecopet Private Limited, for setting up its expansion project in Warangal (Telangana), after which the total capacity would increase to 1,09,200 MTPA for RPSF. Further, on November 17, 2020, GEL incorporated one more wholly-owned subsidiary, Ganesh Ecotech Private Limited, for expansion into the manufacturing of polypropylene staple fibre (PPSF) and washed RPet flakes.

## 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*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount rated (Rs. crore) | Sep 30, 2024 | Date | Rating | Date | Rating | Date | Rating |
| **Fund based/ Working capital limit** | **Long term** | 174.50 | [ICRA]A (Positive) | Jun 30, 2023 | [ICRA]A (Stable) | - | - | Mar 17, 2022 | [ICRA]A (Stable) |
| | | - | - | - | - | - | - | Jun 30, 2021 | [ICRA]A& |
| **Fund based /Term loans** | **Long term** | - | - | Jun 30, 2023 | [ICRA]A (Stable) | - | - | - | - |
| **Fund-based limits** | **Short term** | - | - | Jun 30, 2023 | [ICRA]A1 | - | - | - | - |
| **Non-fund based limits** | **Short term** | 30.00 | [ICRA]A1 | Jun 30, 2023 | [ICRA]A1 | - | - | Mar 17, 2022 | [ICRA]A1 |
| | | - | - | - | - | - | - | Jun 30, 2021 | [ICRA]A1& |
| **Non-fund based limits - Unallocated** | **Short-term** | 8.50 | [ICRA]A1 | - | - | - | - | - | - |
| **Interchangeable^** | **Long-term/ Short-term** | - | - | - | - | - | - | Mar 17, 2022 | [ICRA]A (Stable)/ [ICRA]A1 |
| | | - | - | - | - | - | - | Jun 30, 2021 | [ICRA]A&/ [ICRA] A1& |
| **Unallocated** | **Long-term/ Short-term** | - | - | - | - | - | - | Mar 17, 2022 | [ICRA]A (Stable)/ [ICRA]A1 |
| | | - | - | - | - | - | - | Jun 30, 2021 | [ICRA]A&/ [ICRA] A1& |

*&: Rating watch with developing implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long term – Fund-based/Working capital limit** | Simple |
| **Short term - Non-fund based limits** | Very Simple |
| **Unallocated- Short term - Non-fund based limits** | NA |

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/Working capital limit | NA | NA | NA | 174.50 | [ICRA]A (Positive) |
| NA | Short-term - Non-fund based limits | NA | NA | NA | 30.00 | [ICRA]A1 |
| NA | Unallocated – Short term - Non-fund based limits | NA | NA | NA | 8.50 | [ICRA]A1 |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis

| Company Name | GEL Ownership | Consolidation Approach |
|---|---|---|
| Ganesha Ecopet Private Limited | 100.00% | Full consolidation |
| Ganesha Ecotech Private Limited | 100.00% | Full consolidation |
| Ganesha Overseas Private Limited | 100.00% | Full consolidation |

*Source: Company data*

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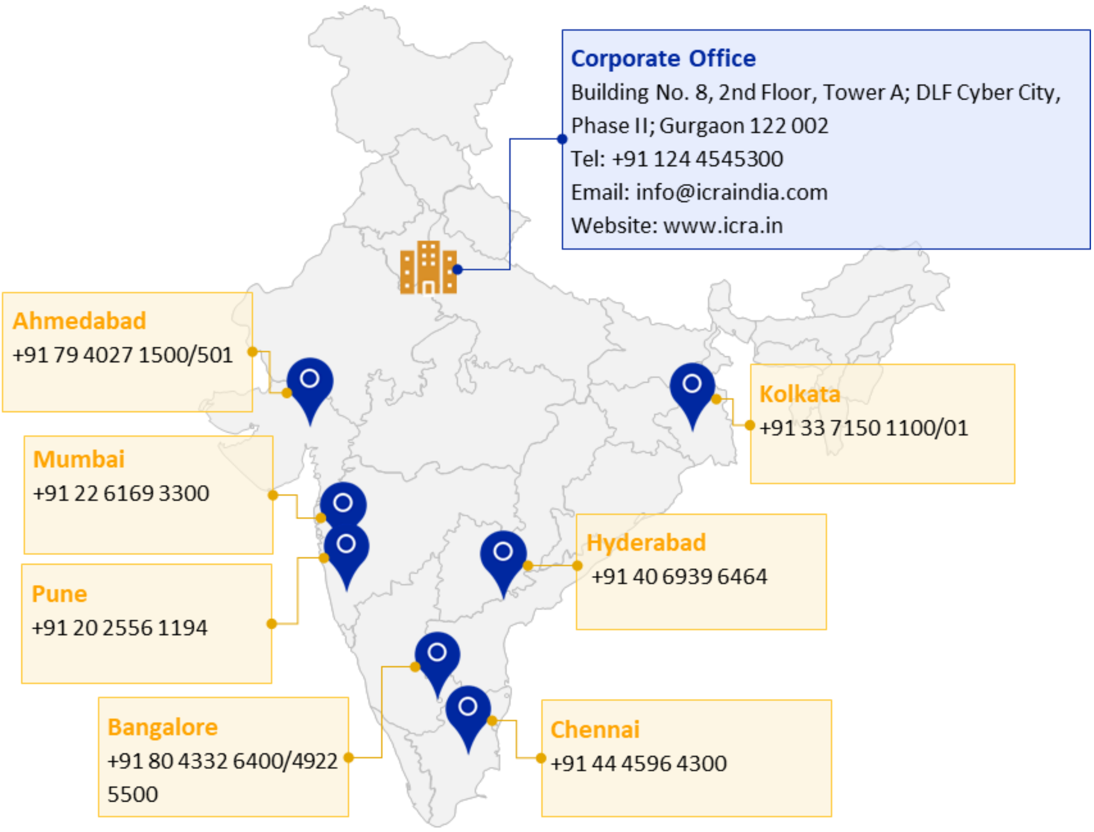




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