February 11, 2025

Ganesha Ecopet Private Limited – Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Cash credit	50.00	50.00	[ICRA]A- (Stable); reaffirmed; outlook revised to Stable from Positive
Term loan	252.52	250.78	[ICRA]A- (Stable); reaffirmed; outlook revised to Stable from Positive
Unallocated	0.48	2.22	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed; outlook revised to Stable from Positive
Bank guarantee	10.00	10.00	[ICRA]A2+; reaffirmed
Total	**313.00**	**313.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook to Stable for Ganesha Ecopet Private Limited (GEPL) factors in the higher-than-expected capital expenditure of Rs. 700-750 crore (against Rs. 300-350 crore budgeted earlier) to be incurred over a period of 18-24 months, which is likely to expose it to higher project execution risks and keep its credit metrics moderately high in the near to medium term. The total debt/OPBITDA is now estimated to be in the range of 2.3-3.2 times between FY2025 and FY2027, higher than 1.6-2.0 times expected earlier at a consolidated level for the Group.
The Group plans to expand its existing capacity for recycled pet granules by 90,000 metric tonnes per annum (MTPA) under GEPL. This capex would be funded through a mix of debt, equity and internal accruals. As per ICRA's estimates, the additional debt required for this expansion would be in the range of 40-45% of the overall capex amount. Given this, the company's leverage and coverage indicators are expected to moderate over the medium term as the debt will steadily increase till FY2027 against ICRA's earlier expectations of the debt reducing from FY2025 onwards with the repayment of the existing term debt. However, the management's previous experience of successfully commissioning and ramping up a similar capacity in the past provides some comfort to partly mitigate the project execution risks. Further, a provision of adequate moratorium and a ballooning repayment structure on the existing term debt provides cushion to ramp up the operations and increase the cash flows from operations.

ICRA also notes the healthy ramp-up of the greenfield capacities established under GEPL that has improved its operating and financial performance in 9M FY2025 and a continuing strong financial and business risk profile of its parent entity - Ganesha Ecosphere Limited or GEL, rated [ICRA]A (Stable)/A1. All the units started their commercial production in FY2024 with the latest production line of recycled polyethylene terephthalate (PET) granules going onstream in July 2024. GEPL demonstrated a healthy capacity utilisation of 70-75% for the newly commissioned production lines of recycled pet granules in 9M FY2025.

The full ramp-up of the operations will boost the Group's operational strengths as it will expand its market presence, widen its geographical footprint and enhance its product portfolio. The ratings also continue to draw strength from GEPL's strong parentage, with GEL having a strong operational and a comfortable financial risk profile. GEPL is expected to receive significant operational, financial and management support from GEL.

GEL has been operating in the industry for over three decades and has a large scale of operations, besides having a demonstrated track record of getting repeat business from a diversified clientele and uninterrupted access to raw materials from an established supplier network. Its leading market position as one of the largest manufacturers of recycled polyester staple fibre (RPSF) in the country has strengthened with the greenfield expansion under GEPL and Ganesha Ecotech Private Limited (GETL). This, together with the shared brand name, reflects GEPL's strategic significance to its parent. ICRA has also noted that the bank facilities of the subsidiaries are backed by a corporate guarantee from GEL, indicating the extent of financial support available from the parent during the operational phase.

The ratings, however, continue to be constrained by the declining revenue and the susceptibility of GEL's and GEPL'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 recycling PET waste capacities, as well as the regulatory developments in recent years, such as the ban on the import of PET waste.

Key rating drivers and their description

Credit strengths

Strong parentage; parent entity has leading market position among Indian RPSF manufacturers – The ratings derive comfort from the strong operational and financial risk profiles of GEPL's parent entity, its established track record of over three decades and its leading market position in the domestic RPSF sector. GEL is one of the largest manufacturers of RPSF in the country (installed capacity of ~96,600 metric tonnes per annum (MTPA) at a standalone level and 1,09,200 MTPA at a consolidated level. The Group has demonstrated 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. GEL's financial risk profile is characterised by comfortable leverage and coverage indicators and an adequate liquidity position. Despite a limited track record for GEPL, the ratings draw support from the strong operational and financial inter-linkages of GEPL with its parent entity, its common management as well as the high strategic importance of the project for the Group.

Increase in Group's profitability with successful ramp-up of recent expansion – 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 was towards recycled PET granules of 42,000 MTPA, which is expected to be the largest contributor to GEPL's top line and has better margins as it will be used in the food and beverages, textile and packaging industries by renowned brands such as Pepsi, Coca Cola, Marico, Ikea, and Varun Beverages.

Over the last few quarters, the capacity utilisation of recycled pet granules has been healthy at 70-75% and is expected to further increase in FY2026. This has enabled the Group to improve its earnings wherein it reported an operating profit of Rs. 159.5 crore in 9M FY2025 compared to Rs. 90.8 crore in 9M FY2024. In 9M FY2025, the operating profit from the newly established business already surpassed the profit from the legacy business of manufacturing RPSF. With further optimal utilisation, the Group's earnings are likely to improve from FY2026 onwards.

Eligibility for fiscal incentives to lower effective cost of debt – Apart from the long repayment tenure and step-up repayment schedule, the projects under GEPL and GETL are eligible for fiscal incentives in the form of interest subsidy of up to ~75%. Further, the new capacities that will be established under GEPL will be eligible for capital subsidies up to 20% of the plant and machinery cost along with power subsidy of Rs. 2 per unit in Odisha. This lowers the effective cost of debt and supports the debt coverage metrics.

Credit challenges

Sizeable project risk arising from capacity expansion under GEPL – In February 2025, the Group announced its plans to substantially increase it capacity to produce recycled pet granules to 1,32,000 MTPA from 42,000 MTPA. Of this, 67,500 MTPA is a greenfield capex coming up in Odisha and 22,500 MTPA is brownfield expansion of the existing recycled pet granule capacity in Warangal under GEPL. The expansion capex of Rs. 700-750 crore is much higher than ICRA's expectations of Rs. 300-350 crore. The expansion is currently in its early stages, with land being yet to be finalised and major approvals yet to be taken. This exposes the Group to significant project and offtake risks. Some comfort can be drawn from the fact that the management has demonstrated successful completion as well as ramping up of the recently established capacities under GEL's subsidiaries. ICRA will continue to closely monitor the progress on the capex front.

Moderation in debt coverage indicators due to higher-than-expected debt-funded capex – The company has announced significant capacity expansion plans of Rs. 700-750 crore, which involves taking on sizeable debt that is much higher than ICRA's expectations. It is expected to draw a debt of Rs. 300-350 crore over a two-year period (FY2026-FY2027), which is likely to moderate its leverage and coverage indicators over the medium term. The total debt/OPBITDA is now estimated to be in the range of 2.3-3.2 times between FY2025 and FY2027, which is higher than ICRA's earlier expectation of 1.6-2.0 times. However, comfort can be drawn from a healthy ramp-up in capacity and cash flow from the existing capacity from the current fiscal onwards. The Group's credit profile is expected to remain moderate till the announced capex is successfully completed without any time/cost overruns.

Susceptibility of profitability to raw material procurement cost and volatility in realisations – GEPL's product profile comprises RPSF, filament yarn and recycled PET granules/chips/resin, which are manufactured from PET bottle waste. Recycled PET granules/chips/resin are expected to contribute majorly to the revenue followed by RPSF. The raw material for recycled PET granules/chips/resin and RPSF is PET waste, which has its own demand-supply dynamics. Further, RPSF realisations are driven by the movement in VPSF prices (which in turn are dependent on crude oil and cotton prices). Hence, the company's profitability will remain susceptible to the volatility in VPSF prices, particularly in a declining price scenario. Thus, the profitability will remain vulnerable to GEPL's ability to manage raw material costs as well as the spread between the realisations and raw material costs.

Raw material procurement and pricing risks – The company is exposed to increasing raw material procurement and pricing risks, given the growing capacities for recycling 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, PET flakes, etc, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations allowing bulk procurement as well as its organised and extensive sourcing network partially mitigate the risk.

Liquidity position: Adequate

GEPL's liquidity profile is adequate, supported by the healthy liquidity of its parent entity, GEL. GEL's liquidity position is adequate, backed by a cushion of ~Rs. 150 crore in its fund-based limits and free cash and bank balances of ~Rs. 150 crore combined as on December 31, 2024. GEL's consolidated free cash flows are expected to remain negative from FY2025-FY2028 because of the planned capex. GEL is expected to tie up additional debt of Rs. 300-350 crore for the planned investment. Therefore, the liquidity will remain adequate for the repayment obligations of Rs. 20-100 crore per annum in the near-to-medium term. ICRA expects the cash flows to be sufficient for servicing the Group's debt repayment obligations.

Rating sensitivities

Positive factors – Successful implementation, timely commissioning and healthy ramp-up of operations of the recently announced capex, which results in a sustained improvement in scale of operations, return metrics and capitalisation and coverage metrics will be positive triggers for the rating. Further, strengthening of the credit profile of the parent entity would be a positive trigger for GEPL's ratings.

Negative factors – Pressure on GEPL's rating could arise if there are any execution or offtake related challenges due to the ongoing debt-funded capex that affect company's return and coverage metrics. Further, weakening of linkages with GEL or weakening of the credit profile of the parent entity would be negative triggers for GEPL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Ganesha Ecosphere Limited ICRA expects GEPL's parent, GEL [rated [ICRA]A (Positive)/[ICRA]A1], to be willing to extend financial support to GEPL, should there be a need, given the high strategic importance of GEPL for the parent to meet its diversification objectives. Both GEL and GEPL share a common name, which in ICRA's opinion would persuade GEL to provide financial support to GEPL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on the consolidated business and financial risk profiles of GEPL and GETL, factoring in the support from GEL, as mentioned above

About the company

Ganesha Ecopet Private Limited (GEPL), a wholly-owned subsidiary of Ganesha Ecosphere Limited, was incorporated in November 2019 for setting up a greenfield project for manufacturing recycled polyester staple fibre, recycled partially oriented yarn and recycled PET granules/resin. The project has been set up at Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 66,840 tonnes per annum.

Further, GEL incorporated one more subsidiary, Ganesha Ecotech Private Limited (GETPL), in November 2020, for setting up washed PET flakes and a polypropylene staple fibre unit. The project has been set up at the Kakatiya Mega Textile Park, Warangal, Telangana, with an installed capacity of 10,800 tonnes per annum of polypropylene staple fibre (PPSF). It also houses capacity for washed PET flakes for in-house consumption.

Key financial indicators (audited)

GEL's Consolidated Financials	FY2023	FY2024	9M FY2025
Operating income	1,179.6	1,122.9	1,121.2
PAT	69.5	40.6	79.4
OPBDIT/OI	10.9%	12.3%	14.2%
PAT/OI	5.9%	3.6%	7.1%
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	5.6

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

GEPL's Standalone Financials	FY2023	FY2024
Operating income	-	105.1
PAT	-0.2	-12.7
OPBDIT/OI	-	11.5%
PAT/OI	-	-12.1%
Total outside liabilities/Tangible net worth (times)	*	291.1
Total debt/OPBDIT (times)	*	42.0
Interest coverage (times)	*	0.7

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *not meaningful*

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					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 11, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based - Cash credit	Long term	50.00	[ICRA]A-(Stable)	26-Sep-24	[ICRA]A-(Positive)	30-Jun-23	[ICRA]A-(Stable)	-	-	17-Mar-22	[ICRA]A-(Stable)
Fund-based - Term loan	Long term	250.78	[ICRA]A-(Stable)	26-Sep-24	[ICRA]A-(Positive)	30-Jun-23	[ICRA]A-(Stable)	-	-	17-Mar-22	[ICRA]A-(Stable)
Unallocated	Long term/Short term	2.22	[ICRA]A-(Stable)/ [ICRA]A2+	26-Sep-24	[ICRA]A-(Positive)/ [ICRA]A2+	-	-	-	-	-	-
Non-fund based - Bank guarantee	Short term	10.00	[ICRA]A2+	26-Sep-24	[ICRA]A2+	30-Jun-23	[ICRA]A2+	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long term – Fund-based - Cash credit	Simple
Long term – Fund-based - Term loan	Simple
Long term/Short term – Unallocated	Not Applicable
Short term – Non-fund based - Bank guarantee	Very Simple

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 limits/TL**	2020	NA	2033	250.78	[ICRA]A- (Stable)
NA	**Long term – Fund-based limits/CC**	NA	NA	NA	50.00	[ICRA]A- (Stable)
NA	**Short term – Non-fund based/BG/LC/SBLC**	NA	NA	NA	10.00	[ICRA]A2+
NA	**Long term/Short term - Unallocated**	NA	NA	NA	2.22	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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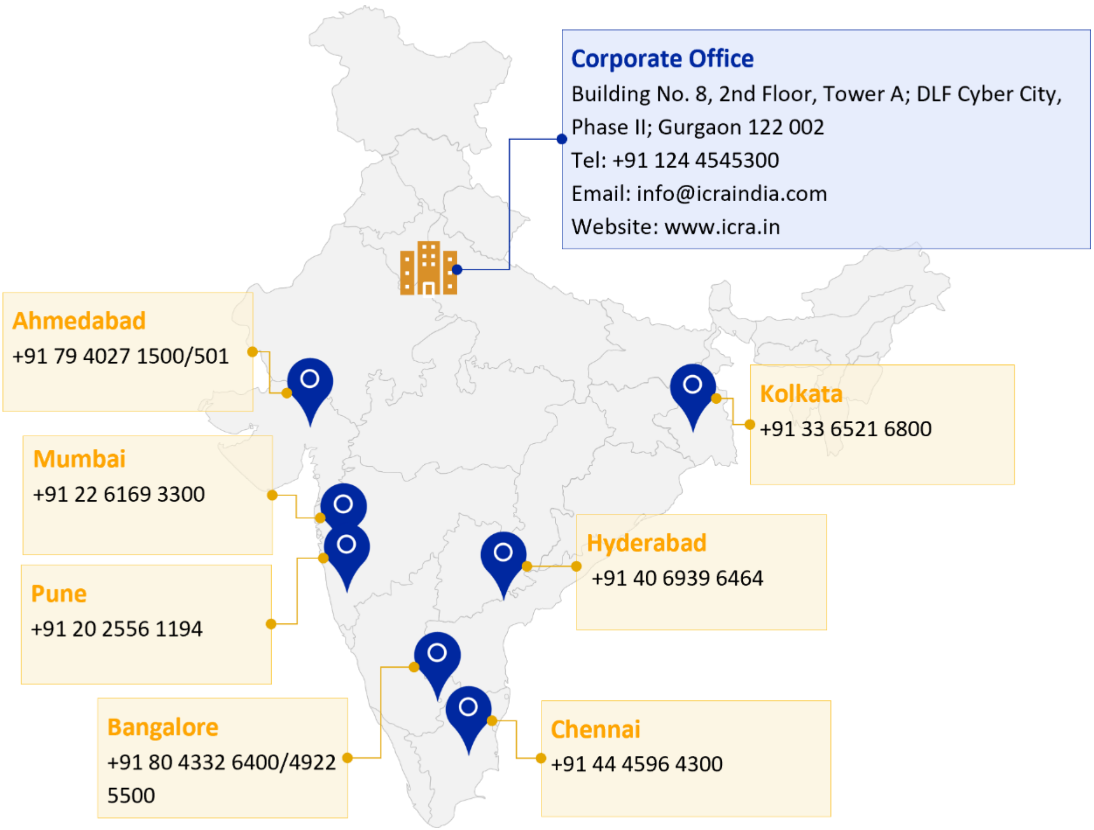

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