June 30, 2021

Ganesha Ecosphere Limited: Ratings placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/working capital limits	125.00	135.00	[ICRA]A&; Placed on watch with developing implications
Long-term/Short-term - Interchangeable^	(37.50)	(37.50)	[ICRA]A&/A1&; Placed on watch with developing implications
Short-term - Non-fund Based Limits	23.50	23.50	[ICRA]A1&; Placed on watch with developing implications
Long-term/Short-term - Unallocated	64.50	54.50	[ICRA]A&/A1&; Placed on watch with developing implications
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-1* *^sublimit of working capital limits*

Rationale

ICRA has placed the ratings outstanding on the bank facilities of Ganesha Ecosphere Limited (GEL) on watch with developing implications. This follows a fire incident at the company's Polyester Staple Fibre unit located at Kanpur, Uttar Pradesh in June 2021, which resulted in a major damage to its building, machinery, raw material and finished goods. ICRA notes that this has affected ~10-15% of GEL's operational capacity, with production likely to stay disrupted in H1 FY2022, till the conclusion of the re-development process. Together with the ongoing impact of the pandemic, this is expected to affect the company's volumes and revenues in FY2022 to some extent. While it has adequate insurance cover to take care of the major losses resulting from the incident, clearances for the same are awaited. ICRA will continue to monitor the developments in this regard and evaluate the impact of the fire accident on GEL's credit profile once the exact implications are known.

The ratings outstanding of [ICRA]A and [ICRA]A1 reflect GEL's strong operational profile and a comfortable financial risk profile, characterised by a conservative capital structure, healthy debt servicing indicators and an adequate liquidity position. GEL has been operating in the industry for over two decades, has large scale of operations, which provide benefits of economies, along with a demonstrated track record of getting repeat business from a diversified clientele and uninterrupted access to raw materials from an established supplier network. The ongoing greenfield capex on a new unit under subsidiaries (for RPSF, partially-oriented/ fully-drawn yarn and PET resins capacities) is likely to bolster GEL's operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. While the increased scope of work in the ongoing capex is resulting in an increased outlay, and is expected to result in higher-than-envisaged leverage metrics, ICRA expects the company's gearing to remain comfortable, and Debt/ OPBDITA to start improving from FY2023 onwards with the commissioning of the project. In this context, comfort is drawn from the fact that the financial closure is in place for the enhanced project cost, besides favourable debt terms with a provision for moratorium and a ballooning repayment structure.

The ratings, however, continue to be constrained by the susceptibility of GEL's profitability to volatility in virgin PSF (VPSF) prices, particularly in a declining price scenario. Further, the company is exposed to raw material availability and pricing risk, which is heightened by increasing domestic RPSF capacities, as well as regulatory developments in the recent years such as the ban on importing of polyethylene terephthalate (PET) waste. Though GEL has maintained its operating margins, despite pressure on contribution margins in the past, its ability to do so on a consistent basis, remains imperative. In this context, ICRA has taken a note of a moderation in the company's turnover and profitability during the last two fiscals. While the dip in FY2021 was caused by the pandemic-led operational disruptions and was in line with the broader industry trends, the reduction in FY2020 was caused by demand-side pressures, besides some pandemic impact in Q4 FY2020. ICRA, however, draws comfort from a healthy ramp-up in scale as well as profitability over the past three quarters.

Key rating drivers and their description

Credit strengths

Leading market position among RPSF manufacturers – With an installed capacity of 1,08,600 metric tonnes per annum (MTPA), GEL continues to be the largest manufacturer of RPSF in the domestic market. Supported by its large scale of operations, which results in economies of scale and augments bargaining power with suppliers, the company has demonstrated healthy and range-bound profitability over the years.

Strong operational profile – GEL has a strong operational profile characterised by a long track record of over two decades in the industry, large scale of operations, 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 10% in GEL's revenues during the last 10 years (FY2011-FY2021). This is despite a moderation in turnover during the last two fiscals, owing to demand-side pressures in FY2020 and the pandemic-led operational disruptions in FY2021. GEL's ongoing greenfield capex under its wholly-owned subsidiaries (involving a more than 40% increase in its RPSF capacity to ~1,61,600 MTPA, along with venture into food-grade recycled PET resins) is expected to bolster its operational strengths in the medium term, with a stronger market position, enhanced product portfolio and wider geographical footprint. This apart, the company has expanded its roof-top solar power capacity at its factory premises to reduce the power cost.

Comfortable financial risk profile, despite sizeable debt-funded capex being undertaken under subsidiaries – GEL's financial risk profile is characterised by a conservative capital structure (gearing (Debt/ Net Worth) and Debt/ OPBDITA of 0.25 times and 1.50 times, respectively, as on March 31, 2021), healthy debt servicing indicators (interest cover and DSCR of 9.6 times and 4.8 times, respectively, in FY2021) and an adequate liquidity position. While the financial leverage is likely to increase in FY2022 owing to the sizeable ongoing debt-funded capex under subsidiaries, ICRA expects the same to start improving from FY2023 onwards, with the commissioning of the project. This apart, the ballooning repayment structure and provision for adequate moratorium for the debt being availed in subsidiaries are expected to keep the company's consolidated debt coverage indicators comfortable, despite some moderation from the current levels.

Credit challenges

Decline in scale of operations – GEL's strong operational profile facilitated consistently healthy capacity utilisation over much of the past decade. However, the company witnessed a moderation in its scale of operations during the last two fiscals. While the decline in FY2021 was caused by the pandemic-led operational disruptions and was in line with the broader industry trends, the reduction in FY2020 was caused by demand-side pressures, besides some pandemic impact witnessed in Q4 FY2020. Owing to a major fire incident reported in its Kanpur unit in June 2021, it is witnessing operational disruptions this year as well, which is expected to result in a sub-optimal capacity utilisation, constraining the return metrics. With sizeable capacities being added under subsidiaries, the company's ability to scale-up and maintain optimum capacity utilisation, will be crucial for its return metrics going forward.

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 dependent on crude oil and cotton prices), GEL's raw material (PET waste) costs are led by its own demand-supply dynamics. Accordingly, the flexibility available with the company to pass on any increase in raw material costs is limited.

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. Given the increasing RPSF capacities in the country as well as GEL's own manufacturing capacities, the company is exposed to increasing raw material procurement and pricing risks. The risk is heightened by the regulatory developments in the recent years involving imposition of ban on import of PET waste, which affected domestic PET waste availability. Nevertheless, GEL's large scale of operations, which allows bulk procurements as well as its organised and extensive sourcing network, mitigates the risk to a large extent.

Operational risks associated with execution and stabilisation of ongoing capacity expansion under subsidiaries – Although the ongoing greenfield capacity expansion is expected to strengthen GEL's operational profile, it is exposed to execution and stabilisation risks in the near term. The risks are heightened considering the company's venture into a new, more regulated segment of food-grade PET resins, which is exposed to regulatory risks considering the stringent quality requirements. Its ability to get all the requisite approvals in a timely manner and ensure healthy scale up of operations, will remain crucial for its return and coverage metrics going forward. With respect to project execution risks, ICRA draws comfort from the company's demonstrated track record of successful implementation and ramp-up of past capacity expansions.

Increased scale of greenfield project resulting in higher-than-envisaged leverage – Post the ~Rs. 100-crore fund infusion via qualified institutional placement (QIP) issuance in May 2018, GEL had announced a sizeable capex of ~Rs. 250 crore for a greenfield capacity expansion. With multiple changes in the scope of the project over the past two years, the estimated project cost was initially revised to Rs. 380 crore, and now stands revised to ~Rs. 453 crore. Correspondingly, the debt component increased to ~Rs. 325 crore, compared to the original plan of Rs. 75 crore and the last estimate of ~Rs. 280 crore. This is resulting in higher-than-envisaged leverage metrics. Nevertheless, given the conservative capital structure, ICRA expects the company's gearing to remain comfortable at less than 0.75 times. Further, Debt/ OPBDITA is likely to start improving from FY2023 onwards with the commissioning of the project, after touching an estimated peak of ~3.5-4 times in FY2022.

Liquidity position: Adequate

GEL's liquidity position is **adequate**, supported by healthy cash flow generation from its operations, which together with liquid funds available from undeployed QIP proceeds, are sufficient to meet the margin funding requirements for the company's working capital as well as ongoing capex requirements. This apart, its repayment obligations remain limited (~Rs. 15-20 crore per annum) in the near to medium term. While a significant outlay is expected towards the ongoing capex under subsidiaries, sanctions in place for the planned debt component provide comfort. The company's adequate liquidity position is also corroborated by its free cash and bank balances of ~Rs. 84 crore and buffer of ~Rs. 43.0 crore in its fund-based working capital limits as on March 31, 2021, against the total equity component of Rs. 128 crore in the ongoing project, of which ~Rs. 68 crore had already been infused till March 31, 2021. For the six-month period that ended in March 31, 2021, GEL had a cushion of Rs. 57-crore in its fund-based working capital limits (equivalent to ~55% of its sanctioned limits).

Rating sensitivities

Positive factors – ICRA could upgrade GEL's ratings if successful commissioning of the new project helps in achieving a sustained increase in its scale of operations from an enhanced product portfolio, while maintaining healthy profitability and better-than-envisaged capitalisation and coverage metrics. Additionally, core ROCE of over 17.5% and Debt/OPBDITA of less than 2 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – Sizeable cost and time overruns in the ongoing project, which adversely affects the company's capitalisation and coverage metrics could be triggers for a rating downgrade. Sustained pressure on revenues and/or profitability for reasons including, but not limited to, material adverse change in industry conditions or raw material availability issues or DSCR of less than 2.0 times, on a sustained basis, could exert negative pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GEL. As on March 31, 2021, GEL had two wholly-owned subsidiaries, that are enlisted in Annexure-2.

About the company

Incorporated in October 1987 as Ganesh Polytex Limited, the company was renamed as Ganesha Ecosphere Limited (GEL) in October 2011. The company primarily manufactures recycled polyester staple fibre 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 from FY1988 with the texturising and dyeing of polyester filament yarn at its manufacturing unit in Kanpur (Uttar Pradesh) with an installed manufacturing capacity of 391 MT per annum (MTPA). In FY1995, GEL diversified into manufacturing RPSF from 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 manufacturing spun yarn from RPSF. As on March 31, 2021, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturised yarn 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 manufacturing RPSF in the domestic market. In November 2019, GEL incorporated a wholly-owned subsidiary, Ganesha Ecopet Private Limited[1] for setting up a greenfield project for manufacturing RPSF, recycled partially oriented/ fully draw yarn and recycled PET resin from PET scrap bottles, in Warangal (Telangana). In November 2020, GEL incorporated another wholly-owned subsidiary, Ganesha Ecotech Private Limited and transferred the washing line component of GEPL's project to this entity.

Key financial indicators (Consolidated)

GEL's financials	FY2020	FY2021
Operating Income (Rs. crore)	888.83	751.14
PAT (Rs. crore)	63.68	43.52
OPBDIT/OI (%)	12.63%	11.25%
PAT/OI (%)	7.16%	5.79%
Total Outside Liabilities/Tangible Net Worth (times)	0.39	0.45
Total Debt/OPBDIT (times)	0.82	1.50
Interest Coverage (times)	14.44	9.59

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

[1] *ICRA has [ICRA]A-(Stable) rating outstanding for the bank facilities of Ganesha Ecopet Private Limited. For details, please refer to ICRA's website – www.icra.in*

Status of non-cooperation with previous CRA:

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
					June 30, 2021	-	Mar 11, 2020	Jan 25, 2019	May 21, 2018	Apr 06, 2018
1	Working capital limits	Long Term	135.00	-	[ICRA]A&	No Rating Change	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Interchangeable	Long Term /Short Term	(37.50)	-	[ICRA]A& /A1&	No Rating Change	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
3	Non-Fund based limits	Short Term	23.50	-	[ICRA]A1 &	No Rating Change	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term/ Short Term	54.50	-	[ICRA]A& /A1&	No Rating Change	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

&: placed on watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund Based/Working capital	Simple
Long-term/Short-term - Interchangeable^	Very Simple
Short-term - Non-fund-based limits	Very Simple
Long-term/Short-term - Unallocated	Not Applicable

^sub-limit of working capital limit

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, is available on ICRA's website: Click Here

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	Long term – Fund based - Working capital limits	-	-	-	135.00	[ICRA]A&, placed on watch with developing implications
NA	Long term/Short term – Interchangeable	-	-	-	(37.50)	[ICRA]A&/A1&, placed on watch with developing implications
NA	Short term – Non-Fund based limits	-	-	-	23.50	[ICRA]A1&, placed on watch with developing implications
NA	Long term/Short term – Unallocated	-	-	-	54.50	[ICRA]A&/A1&, placed on watch with developing implications

Source: *Company*

Annexure-2: 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

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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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