Ganesha Ecosphere Limited

January 25, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based (FB) Working Capital	125.00	125.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Long-term/Short-term Interchangeable	(23.00)	(37.50)	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Positive)/[ICRA]A2+
Fund-based Term Loan Facilities	25.34	10.93	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Short-term Fund-based Limits	3.50	0.00	--
Short-term Non-fund Based (NFB) Limits	23.50	23.50	[ICRA]A1; upgraded from [ICRA]A2+
Long-term/Short-term Unallocated	35.66	53.57	[ICRA]A(Stable)/[ICRA]A1; upgraded from [ICRA]A-(Positive)/[ICRA]A2+
Total	**213.00**	**213.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in operational as well as the financial risk profile of Ganesha Ecosphere Limited (GEL), supported by healthy ramp-up of its enhanced capacities and equity-infusion via Qualified Institutional Placement (QIP). While GEL has initiated the next round of greenfield capital expenditure involving a more than 40% increase in its existing installed capacity for Recycled Polyester Staple Fibre (RPSF), ICRA expects its strong capital structure and healthy debt protection metrics to sustain owing to phased implementation, low dependence on debt as well as falling repayment obligations for the existing debt. Besides an increase in scale, the said capex is likely to bolster GEL’s operational profile by strengthening its market presence and expanding its geographic footprint. The ratings, however, continue to be constrained by the susceptibility of GEL’s profitability to volatility in VPSF (virgin PSF) prices, particularly in a declining price scenario. Further, the company is exposed to raw material availability and pricing risk, which is heightened considering increasing domestic RPSF capacities as well as regulatory developments such as the ban imposed on import of Polyethylene Terephthalate (PET) waste in recent years. Though the company has demonstrated its ability to maintain its operating margins despite pressure on contribution margins during FY2018 and H1FY2019, its ability to do so on a consistent basis, remains imperative. Nevertheless, ICRA draws comfort from GEL’s dominant position in the domestic market as one of the largest manufacturers of RPSF. Along with its established operational track record, this has facilitated creation of a strong sourcing network for PET waste and a diversified client base, in turn supporting consistently healthy capacity utilisation level and steady profitability over the years.

In ICRA’s view, GEL’s ability to implement the capex in a timely manner, 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 will be a key rating sensitivity. 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, a significant change in capex plans, involving a change in timing, scale or funding mix, may warrant a reassessment of GEL’s credit profile.

Outlook: Stable

A Stable outlook reflects ICRA's expectation that the company's established customer and supplier network will continue to facilitate healthy utilisation of its enhanced capacities and stable operating profitability. Together with limited repayment obligations and moderate working capital requirements, this should keep the company's cash flows, coverage metrics and liquidity profile healthy. The outlook may be revised to Positive in case of higher than expected growth in scale supported by increased presence across geographies and enhanced product portfolio, besides improved visibility on raw material sourcing, while maintaining strong profitability. The outlook may be revised to Negative if a pressure on contribution margins results in a downward shift in the profitability trajectory, affecting GEL's financial and credit profile. Besides, a revision in the outlook to Negative may also be warranted if the company leverages its enhanced equity base significantly, resulting in weakened capitalisation or coverage indicators.

Key rating drivers

Credit strengths

Leading market position among RPSF manufacturers – With an installed capacity of 108,600 metric tonne per annum (MTPA), 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 augments bargaining power with suppliers, the company has demonstrated healthy and stable profitability over the years. GEL's proposed greenfield capital expenditure, involving a more than 40% increase in its RPSF capacity to ~156,600 MTPA, is expected to strengthen its market position, while expanding its geographic presence.

Strong operational profile characterised by large scale, long track record and an established client and supplier network– 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. This is corroborated from the fact that GEL has been able to continually improve its capacity utilisation levels in its key segment of RPSF, despite regular additions to its inhouse capacities as well sizeable capacity additions at the industry level over the last three years.

Healthy financial risk profile characterised by a strong capital structure, healthy debt-coverage indicators and comfortable liquidity– GEL's healthy profits and cash accruals together with moderate and declining debt repayments continue to support a strong financial risk profile, as reflected in Net Debt/ OPBDITA of ~0.96 time, interest cover of ~8.0 times and a debt service coverage ratio (DSCR) of ~4.0 times in H1 FY2019. Further, GEL received an equity infusion of Rs. 100 crore under a QIP issue during the current financial year, which has strengthened the company's capital structure (as reflected in a gearing, or TD/TNW, of ~0.4 time as on September 30, 2018 over 0.8 time as on March 31, 2018) as well as liquidity position. Even though the company plans to undertake a sizeable capex of Rs. 250 crore, which is proposed to be partially funded by debt, besides QIP proceeds and internal accruals, phased implementation of the said capex together with moderate reliance on debt are expected to keep the company's capital structure healthy. Moreover, with repayment obligations against existing debt declining to ~Rs. 16 crore in FY2019 and further to ~Rs. 10 crore in FY2021 (over ~Rs. 36 crore in FY2018), debt coverage indicators are expected to remain healthy despite incremental borrowings. Moreover, ICRA expects company's liquidity profile to remain comfortable supported by surplus accrual generation and moderate working capital requirements of the business.

Credit challenges

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. 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 critical 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 considering regulatory developments in the recent years involving imposition of ban on import of PET waste, which also 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 and preemptive efforts involving tie-ups with PET producers for waste collections, mitigates the risk to a large extent. In this context, ICRA notes that the company reported an increase in raw material procurement cost during FY2018 and H1 FY2019. Although this resulted in some pressure on its contribution margins (gross contribution margins declined by ~8% in FY2018, and further by ~3% in H1 FY2019), economies of scale resulting from ramp-up of enhanced capacity allowed GEL to maintain its operating margins.

Liquidity Position:

Timely enhancement in working capital limits has facilitated availability of adequate funds to support the enhanced scale of operations. Post fund-infusion via QIP, the company's fund-based working capital limits have remained largely unutilised, resulting in surplus liquidity. Even though the QIP proceeds will be deployed towards capex during the next two years, which will result in an increase in working capital limit utilisation, ICRA expects the company's liquidity position to remain comfortable, supported by steady surplus accrual generation, limited working capital requirements of the business and availability of adequate funding for the company's capex and working capital requirements.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry–Spinning
Parent/Group Support	Parent/Group Company: None
Consolidation / Standalone	Rating is based on standalone financial statements of the issuer

About the company

Incorporated in October 1987 as Ganesh Polytex Limited, the company was renamed to 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 September 30, 2018, GEL had a total installed manufacturing capacity of 3,000 MTPA of texturized 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.

Key financial indicators (audited)

	FY2017	FY2018	H1FY19*
Operating Income (Rs. crore)	674.5	753.7	503.7
PAT (Rs. crore)	29.8	35.2	24.0
OPBDIT/OI (%)	11.8%	11.4%	11.0%
RoCE (%)	16.4%	15.9%	17.1%
Total Debt/TNW (times)	0.63	0.81	0.39
Total Debt/OPBDIT (times)	1.82	2.46	1.33
Interest coverage (times)	5.33	5.91	8.02

** Based on limited review by the Statutory Auditors*

Status of non-cooperation with previous CRA:

- CRISIL Ltd. suspended the CRISIL BB+(Stable) rating on the 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	Amount Rated (Rs. Cr)	Amount O/s^ (Rs. Cr.)	Current Rating (FY2019) Date & Rating			Chronology of Rating History for the past 3 years			
								Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					Jan-19	**May-18**	**Apr-18**	**Nov/ Dec-17**	**Apr-17**	**Apr-16**	**--**
1	FB: Term Loan	LT	10.93	10.93^	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	FB: Working Capital	LT	125.00	--	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	FB/NFB Working capital	ST	(37.50)	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4	NFB facilities	ST	23.50	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2
5	Unallocated	LT/ ST	53.57	--	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2+	-	[ICRA]BBB+ (Stable)/ [ICRA]A2
	Total		**213.00**	--							

^ Outstanding pertaining to Term Loan from SBI, as on December 21, 2018.

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	Jan-2017	--	FY2027	10.93	[ICRA]A(Stable)
NA	Fund-based Working Capital	--	--	--	125.00	[ICRA]A(Stable)
NA	Long-term/ Short-term Interchangeable^	--	--	--	(37.50)	[ICRA]A(Stable) / [ICRA]A1
NA	Non-fund-based facilities- Letter of Credit	--	--	--	23.50	[ICRA]A1
NA	Long-term/ Short-term Unallocated	--	--	--	53.57	[ICRA]A(Stable) / [ICRA]A1

^Sub-limit of working capital limits

Source: Ganesha Ecosphere Limited

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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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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