March 11, 2020

Ganesha Ecosphere Limited: Ratings reaffirmed

Summary of rating action

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); reaffirmed
Long-term/Short-term Interchangeable	(37.50)	(37.50)	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Fund-based Term Loan Facilities	10.93	--	--
Short-term Non-fund Based (NFB) Limits	23.50	23.50	[ICRA]A1; reaffirmed
Long-term/Short-term Unallocated	53.57	64.50	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to derive strength from Ganesha Ecosphere Limited's (GEL's) strong operational profile with a track record of over two decades in the sector, large scale of operations providing benefits of economies and consistently healthy capacity utilisation facilitated by repeat business from a diversified client base and uninterrupted access to raw materials from an established supplier network. Proposed greenfield capex on a new unit to manufacture Recycled Polyester Staple Fibre (RPSF) is expected to bolster GEL's operational strengths by expanding its market presence, widening its geographical footprint (for manufacturing capacities) and enhancing its product portfolio. Further, GEL's financial profile continues to be strong characterised by its conservative capital structure, healthy debt-servicing indicators and robust liquidity position. GEL's liquidity profile is aided by healthy cash flow generation from operations and free cash and liquid investments of over Rs. 90 crore, which together with a phased capex implementation plan is expected to keep company's reliance on external funding sources low.

While reaffirming the ratings, ICRA has noted a ~10% YoY decline in GEL's revenues in 9MFY2020 amid demand-side pressures as well as softening of realisations. However, its operating profitability has been on an improving trajectory, supported by its enhanced product mix, following the ramp-up of its enhanced capacities (additional ~21,000 MTPA capacity commissioned in end of FY2018). Despite the near-term concerns on account of a challenging operating environment, heightened by uncertainty on the impact of a coronavirus outbreak on demand as well as profitability, ICRA expects the impact to be transitory and the company to be able to maintain healthy return metrics.

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 by increasing domestic recycled polyester staple fibre (RPSF) capacities as well as regulatory developments in recent years such as the ban on importing of Polyethylene Terephthalate (PET) waste. Though the company has demonstrated its ability to maintain its operating margins despite pressure on contribution margins in the past, 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 the creation of a strong sourcing network for PET waste and a diversified client base, in turn consistently supporting healthy capacity utilisation level and steady profitability over the years.

The 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 sustained operating profitability. Its strong operational and financial profile is likely to help the company withstand the challenges in the operating environment, including demand side pressures, pressure on realisations (owing to softening of PSF realisations) as well as near-term concerns on the possible impact of coronavirus outbreak on demand from downstream segments.

Key rating drivers and their description

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 steady profitability over the years. GEL's proposed greenfield capital expenditure (capex), involving a more than 40% increase in its RPSF capacity to ~156,600 MTPA, is expected to bolster its operational strengths in the medium term, with a stronger market position, enhanced product portfolio and wider geographic footprint.

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. This is corroborated by 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-four years. Consistently heathy utilisation of installed capacities over the years facilitated a compound-average growth rate of over 20% in GEL's revenues during the last 10 years (FY2009-FY2019). Company's return metrics also continue to be strong as reflected in a core RoCE of more than 20% in FY2019 and H1 FY2020.

Strong financial risk profile– GEL's financial risk profile is characterised by a conservative capital structure (gearing and Debt/ OPBDITA of 0.1 time and 0.5 time respectively, as on September 30, 2019), healthy debt-servicing indicators (DSCR of 3.84[1] times and 6.49 times in FY2019 and H1 FY2020 respectively) and robust liquidity position. With healthy cash flow generation from operations, low repayment obligations and phased capex plans, GEL's dependence on debt remains marginal. Post the fund-infusion of ~Rs 100 crore via qualified institutional placement (QIP) issuance in May 2018, GEL had announced a sizeable capex of ~Rs 250 crore for a greenfield capacity expansion. As the capex got deferred by nearly two years owing to delays in obtaining approvals for land allotment, at the location identified previously, the surplus proceeds were deployed by the company towards debt reduction which further strengthened its capitalisation metrics in recent years. Although work on the project is expected to pick up pace from FY2021 onwards, plans to undertake the capex in a phased manner together with healthy cash flow from operations and low dependence on debt are expected to keep the capital structure healthy.

[1] *DSCR excluding short-term debt and pre-payments*

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 by the 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 mitigates the risk to a large extent.

Operational risks associated with execution and stabilisation of proposed capacity expansion- Although the proposed greenfield capacity expansion is expected to strengthen the operational profile of GEL, it is exposed to execution and stabilization risks in the near term. In this context, company's demonstrated track record of successful implementation and ramp-up of past capacity expansions provides comfort.

Liquidity position: Strong

GEL's liquidity profile is strong aided by healthy cash flow generation from operations, low repayment obligations, and phased capex implementation plans, which is expected to keep company's reliance on external funding sources low. This is corroborated by healthy liquid balances (of over Rs. 90 crore as on September 30, 2019) and sparsely utilised working capital limits (~Rs. 90 crore cushion in fund-based working capital limits in December 2019).

Rating sensitivities

Positive triggers – ICRA could upgrade GEL's rating if sustained healthy profitability supported by enhanced product portfolio, together with phased implementation of capex helps the company maintain strong capitalisation and coverage metrics. Specific credit metrics to include gearing of less than 0.5 times, DSCR of over 3 times and core ROCE of over 17.5% on a sustained basis.

Negative triggers – Negative pressure on ratings could arise if a pressure on contribution margins results in a decline in profitability on a sustained basis, or a material adverse change in industry conditions/ regulations impacts raw material availability/ prices or demand prospects in turn affecting revenue growth and profitability. Besides, negative pressure on ratings could arise if the company leverages its enhanced equity base significantly, resulting in weakened capitalisation or coverage indicators. Specific metrics to include core RoCE of less than 15%, Debt/OPBDITA of more than 2.25 times and DSCR of less than 2.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Liquidity analysis of entities in the non-financial sector
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 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 September 30, 2019, 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. On November 19, 2019, GEL incorporated its wholly owned subsidiary Ganesha Ecopet Private Limited for setting up its expansion project in Warrangal (Telangana).

Key financial indicators (audited)- Standalone

	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	753.46	1,020.49	687.16
PAT (Rs. crore)	35.23	61.95	47.62
OPBDIT/OI (%)	11.5%	13.0%	13.7%
RoCE (%)	15.9%	20.7%	NA
Total Outside Liabilities/Tangible Net Worth (times)	1.24	0.48	NA
Total Debt/OPBDIT (times)	2.44	0.81	NA
Interest Coverage (times)	5.95	12.68	15.39
DSCR^	1.46	3.84	NA

Note: 9M FY2020 KFIs are based on abridged financials reported by the company
**NA= not available*
^ DSCR excluding short-term debt and pre-payments

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 past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018			FY2017
					11-Mar-2020	25-Jan-2019	21-May-2018	06-Apr-2018	18-Dec-2017	24-Nov-2017	11-Apr-2017	11-Apr-2016
1	Fund-based (FB) Working Capital	Long-term	125.00	--	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Long-term/Short-term Interchangeable^	Long-term/ Short-term	(37.50)	--	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+
3	Short-term Non-fund Based (NFB) Limits	Short-term	23.50	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Long-term/Short-term Unallocated	Long-term/ Short-term	64.50	--	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable) /[ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Amount in Rs. crore
^Sub-limit of Fund-based working capital limit

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based (FB) Working Capital	Jan-2019	NA	--	125.00	[ICRA]A (Stable)
NA	Long-term/Short-term Interchangeable	Jan-2019	NA	--	(37.50)	[ICRA]A (Stable)/[ICRA]A1
NA	Short-term Non-fund Based (NFB) Limits	Jan-2019	NA	--	23.50	[ICRA]A1
NA	Long-term/Short-term Unallocated	NA	NA	--	64.50	[ICRA]A (Stable)

Source: Ganesha Ecosphere Limited

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

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About ICRA Limited:

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