Ganesha Ecosphere Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	196.83 (Reduced from 247.90)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	23.50	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**220.33 (Rs. Two Hundred Twenty Crore and Thirty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The re-affirmation of the ratings assigned to the bank facilities of Ganesha Ecosphere Limited (GEL) continue to derive strength from extensive experience of promoters and the management team. The rating also derive comfort from the continued dominant position in regenerated polyester staple fibre (RPSF) business, its presence in both fibre and yarn leading to integrated nature of operations, efficient raw material procurement arrangement and established relationship with diversified customer profile. The ratings also factor in the comfortable financial profile marked by healthy profitability and capital structure of the company.

The above strengths are partially offset by exposure of risk associated with under-implementation projects, increasing working capital intensity of operation and exposure to volatility in the finished goods prices which are linked to virgin polyester staple fibre (PSF). The ratings also take cognizance of corporate guarantee, proposed to be given to lenders for debt to be taken by subsidiary companies to execute their respective projects.

Rating Sensitivities

Positive Factors: factors that could lead to positive rating action/upgrade

- Improvement in PBILDT Margins beyond 16% along with increasing TOI on sustained basis.
- Implementation of capex plans under subsidiary companies within envisaged time and cost estimates and successful operations thereafter.

Negative Factors: factors that could lead to negative rating action/downgrade

- Overall Gearing adjusted for group investments and corporate guarantees increasing beyond 1x.
- Moderation in PBILDT margins below 10% on sustained basis.
- Increase in the gross operating cycle beyond 180 days on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters and management team

Mr. Shyam S. Sharmma (the promoter and Chairman) has five decades of experience in the textile industry including 25 years with various Birla group companies. He is ably supported by his son Mr. Sharad Sharma (Managing Director) who takes care of daily plant management and overall operations of the company. The company has professional management having rich experience in the textile industry.

Efficient raw material procurement arrangement

GEL processed 6.51 billion PET bottles in FY20 (PY: 6.45 billion). GEL has established strong relations and collection network across the country based on which the company mobilizes ~350 tonnes of PET waste every day. GEL mainly procures its raw material (~80% of the required raw material) from vendors/scrap dealers across India and has more than 20 collection centers. The company has diversified vendor/supplier profile with top five suppliers contributing 16%-22% of total purchases over past three years.

Dominant market position with integration in both fibre and yarn

With a total installed capacity of 108,600 MTPA, GEL continues to be one of the largest RPSF players in India with sizable market share. It also has yarn capacity of 10,200 MTPA as on December 31, 2020. GEL has been able to maintain its leadership position on account of presence in both fibre and yarn segments. The company uses a portion of its RPSF produce to manufacture spun yarn at Bilaspur facility leading to savings on overhead costs due to integrated nature of operations. GEL has capacity for converting PET bottles to PET flakes, making fibre from PET flakes and yarn from fibre.

Established relationship with diversified customer profile

Over the years, GEL has developed strong relationship with customers both in domestic and overseas market. The company is exporting nearly 7% of its sales. The fair diversification in its customer profile is reflected from reducing revenue contribution from top ten customers over the past three years.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Comfortable financial risk profile marked by healthy profitability and capital structure
GEL's total operating income has demonstrated a CAGR of 5.63% during FY18-FY20. The total operating income of the company witnessed a moderation of 12.90% in FY20 over FY19 on account of softening realizations coupled with halting of dispatches during last week of March-2020 due to Covid-19.
Profitability margin of GEL has been consistent during last three years given the benefit of economies of scale of operation, decent product portfolio, efficient procurement and sales strategy. The PBILDT margin of the company stood at 13.04% during FY20 (PY: 13.56%). The company is also taking initiatives to reduce the power purchase cost through installation of roof top solar projects at the factory premises. Further, the PAT margin has improved to 7.15% in FY20 from 6.03% in FY19 mainly on account of reduction in interest cost. The leverage of the company has improved as depicted by overall gearing of 0.19x as on March 31, 2020 (PY: 0.26x). Interest coverage ratio also improved to 14.99x in FY20 (PY: 13.27x) mainly due to lower interest payments.
In 9MFY20, GEL has achieved total income of Rs. 511.61 crore with PBILDT and PAT margin of 11.98% and 5.22% respectively. The operations of the company were impacted due to Covid-19 pandemic leading to shut down of plant for a brief period. However, the company had started operations from first week of May 2021.
Industry Scenario
The demand for RPSF moves in tandem with the demand of virgin PSF as RPSF is a cost competitive substitute for virgin PSF. Both these products fall under the Man-Made Fibre (MMF) category. The MMF consumption will pick up gradually with an increase in demand for apparels, home textiles and technical textiles as the macro-economic scenario recovers. The growth momentum of the industry has been impacted due to Covid-19 pandemic as globally economies are still recovering from aftermath of the pandemic. In the long run, the growth in apparels and home textile segments will be supported by the factors like rise in disposable income, growing consumer class, rising urbanization, increasing retail penetration, increased usage of plastic money and increased commitment towards recycled products by many global readymade garment brands. Further, GoI's initiatives towards a stronger plastic waste management in the country are expected to have a positive impact on the industry and augurs well for GEL.
Key Rating Weakness
Exposure to risks associated with under-implementation project in subsidiary companies
The company has incorporated two wholly owned subsidiaries named Ganesha Ecopet Private Limited (GEPPL) and Ganesha Ecotech Private Limited (GETPL) for development of green field projects in the same line of business including manufacturing of value-added products. GEL is exposed to project risk due to its equity commitment for these projects and financial support in form of guarantees extended to lender. The capex is significant considering GEL's existing networth. The debt portion of the projects has been partially tied-up with lenders which mitigates the funding risk. The projects are expected to start operations from March-2022 (project under GETPL) and June-2022 (project under GEPPL). The projects have locational advantage in terms of sourcing raw material and favourable tax structure. However, quick ramp up of operations at these facilities with sufficient cash generation is to be seen. The implementation risks are partially mitigated given the extensive experience of GEL and management in operation and development of similar type of projects.
Increasing working capital intensity of operations
The company has witnessed increase in the working capital intensity in its operations largely due to higher inventory holding period attributable to halting of shipments in the last week of March 2020 due to Covid-19 pandemic coupled with inventory of raw material i.e. PET bottles, maintained by the company in FY21. Further, there has been some moderation in the collection period in FY20 and gross operating cycle stood at 106 days in FY20, increased from 89 days in FY19. The gross operating cycle is expected to further increase to 137 days in FY21. The increase in working capital intensity has been funded partially through internal accruals coupled with utilization of working capital limits which stood at 34% for the trailing 14 months ended February 2021.
Volatility in product prices
The price of RPSF is benchmarked against the prices of virgin PSF, which in turn, is linked to the prices of Poly Terephthalic acid (PTA) and mono ethylene glycol (MEG) (i.e derivatives of crude oil). RPSF's prices are at a discount (approximately 15-20%) to virgin PSF prices. Any downward movement in crude oil prices makes RPSF less attractive vis-à-vis virgin PSF. However, the risk is mitigated to an extent as Polyethylene terephthalate (PET) waste does not have any other significant usage apart from that in RPSF manufacturing; RPSF manufacturers have ability to negotiate input raw material prices in times of declining RPSF prices as evident in resilient gross margins of GEL over the years.
Liquidity analysis: Adequate
The company has adequate liquidity position marked by cash and liquid investments of ~Rs. 70 crore as on March 27, 2021. Further, the company is expected to generate adequate cash accruals in FY22 vis-à-vis its repayment obligations. Current ratio of the company stood healthy as on March 31, 2020. The working capital cycle moderated from 72 days in FY19 to 91 days in FY20 mainly on account of increase in inventory holding due to Covid-19 pandemic. Though, average working capital utilization remained low 34% for the 14 months ended February 2021. Also, the company has not availed the moratorium under Covid-19 regulatory package of RBI and paid all the dues.

Analytical approach: Standalone
Applicable Criteria
CARE's Criteria on assigning Outlook & Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's Criteria on Short-term Ratings
Rating Methodology for Manmade Yarn Manufacturing
CARE's Methodology for Manufacturing Companies
Financial Ratios- Non-financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the Company
GEL was incorporated in 1987 by Mr. Shyam S. Sharmma, a first-generation entrepreneur, with an initial installed capacity of 391 TPA (Tons Per Annum) and 360 TPA, to produce Dyed & Doubled Yarn respectively. The company is engaged in manufacturing of Regenerated Polyester stable fibre (RPSF), Dyed yarn and Recycled Spun Yarn. The main raw material for RPSF is waste PET bottles. GEL is one of the leading players in the RPSF industry in India with an installed capacity of 108,600 TPA (Tonnes Per Annum) of RPSF and 10,200 TPA of Yarn as on December 31, 2020.

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total Operating Income	1,026.67	892.99
PBILDT	139.22	116.49
PAT	61.95	63.88
Overall Gearing (times)	0.26	0.19
Interest coverage (times)	13.27	14.99

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History: Please refer Annexure-2

Annexure-1: **Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	March 31, 2027	135.00	CARE A; Stable
Term Loan-Long Term	-	-	-	61.83	CARE A; Stable
Non-fund-based-Short Term	-	-	-	23.50	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	135.00	CARE A; Stable	-	1)CARE A; Stable (11-Mar-20)	1)CARE A; Stable (29-Jan-19) 2)CARE A; Stable (21-Aug-18)	1)CARE A-; Stable (28-Mar-18) 2)CARE A-; Stable (03-Jul-17) 3)CARE A-; Stable (21-Apr-17)
2.	Term Loan-Long Term	LT	61.83	CARE A; Stable	-	1)CARE A; Stable (11-Mar-20)	1)CARE A; Stable (29-Jan-19) 2)CARE A; Stable (21-Aug-18)	1)CARE A-; Stable (28-Mar-18) 2)CARE A-; Stable (03-Jul-17) 3)CARE A-; Stable (21-Apr-17)
3.	Non-fund-based-Short Term	ST	23.50	CARE A1	-	1)CARE A1 (11-Mar-20)	1)CARE A1 (29-Jan-19) 2)CARE A1; Stable (21-Aug-18)	1)CARE A2+ (28-Mar-18) 2)CARE A2+ (03-Jul-17) 3)CARE A2+ (21-Apr-17)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based-Short Term	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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