Ganesha Ecosphere Limited

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	189.05 (Enhanced from 171.43)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	23.50	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**212.55** **(₹ Two Hundred Twelve Crore and Fifty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Ganesha Ecosphere Limited (GEL) continue to derive strength from extensive experience of the promoters and management team along with dominant position of GEL into RPSF business with its presence in both fibre and yarn leading to integrated nature of operations. The ratings also continue to take comfort from efficient raw material procurement system, established relationship with diversified customer profile and established product distribution network resulting into increased penetration in the export market. The ratings also continue to factor in comfortable financial risk profile marked by healthy profitability, debt coverage indicators and adequate liquidity position. These rating strengths, however, continue to remain constrained by exposure of risk associated with successful ramp up of operations in recently near to completion projects under its wholly owned subsidiaries, working capital intensive nature of operations and exposure to volatility in the finished goods prices which are linked to virgin polyester staple fibre (PSF). The ratings also take into account the corporate guarantee provided for debt taken by subsidiary companies to execute their respective projects.

Rating sensitivities

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

- Increase in scale of operations marked by total operating income increasing to Rs.1100 crore or above while improving PBILDT Margin beyond 13% and above on a sustained basis
- Diversification in overall product portfolio within the envisaged timelines without any cost/time over run.
- Healthy ramp up of the operations in the ongoing projects under subsidiaries

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

- Moderation in PBILDT Margin below 9% on a sustained basis
- Elongation in operating cycle beyond 180 days
- Overall Gearing adjusted for group investments and corporate guarantee increasing beyond 1.50x

Detailed description of the key rating drivers

Key rating strengths

Extensive experience of promoters and management team

The company has been promoted by Mr. Shyam S Sharmma- Chairman, who has experience of five decades in the textile industry including 25 years with various Birla group companies. He is assisted by his son Mr. Sharad Sharma, Managing Director, who has an experience of more than three decades in marketing and distribution and takes care of overall operations of the company. The company is supported by professional management having rich experience in the textile industry.

Dominant market position with integration in both fibre and yarn

GEL has been able to maintain its leadership position on account of presence in both fibre and yarn segments. GEL is one of the major RPSF players in India with a total installed capacity of 96,600 MTPA as on June 30, 2022. Further, GEL has an installed capacity of 10,200 MTPA for Yarn. The company uses around 7%-10% of RPSF produce to manufacture spun yarn at Bilaspur facility. Due to integrated nature of operations, the company saves on the overhead cost. GEL has capacity for converting PET bottles to PET flakes, making fibre from PET flakes and further yarn from fibre.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable financial risk profile
The financial risk profile of the company continues to be comfortable marked by healthy profitability margins and debt coverage indicators. The profitability margins of GEL remained healthy given the benefit of economies of scale, decent product portfolio, efficient procurement, and sales strategy. The PBILDT margin of the company in FY22 stood at 11.39% (PY: 11.14%). Further the company has comfortable debt coverage indicators with interest coverage ratio and total debt/ gross cash accruals of 11.92x and 1.46x respectively as on March 31, 2022. The capital structure of the company stood comfortable with overall gearing of 0.24x as on March 31, 2022 (PY 0.25x). Company reported growth in operating income and profitability during Q1FY23 with a total operating income of Rs.292.95 crore and PBILDT of Rs.27.43 crore as against a total operating income and PBILDT of Rs.198.61 crore and Rs.23.00 crore respectively in Q1FY22.

Efficient raw material procurement arrangement
GEL has established strong relations and collection network across the country based on which the company mobilises ~350 tonnes of PET waste every day. GEL requires raw material (PET bottles) of 1,20,000 tonne to 1,30,000 tonne annually which is sourced from vendors/scrap dealers across India through a network of more than 20 collection centres. The company has diversified vendor/supplier profile with top ten suppliers contributing ~29% of total purchase in FY22.

Established relationship with diversified customer profile
The top 10 customers contributed ~20.64% of total income during FY22 (PY:18.02%) and 27.51% during Q1FY23, thus indicating diversified customer profile in terms of revenue. The company sells its products to textile players, and it is also a supplier to key OEMs. In terms of segment diversification, around 65% of the total sales of the company are to spinning segment, 25% are to technical non-woven segment and balance 10% are to stuffing segment. The diversified customer profile has resulted in increased export sale of the company in FY22. Export sales contribution to the total sales is ~13% in FY22 (PY:8%).

Key rating weaknesses
High exposure towards subsidiary companies
The company has incorporated three wholly owned subsidiaries named Ganesha Ecopet Private Limited (GEPPL), Ganesha Ecotech Private Limited (GETPL) and Ganesha Overseas Private Limited (GOPL) for development of green field projects in the same line of business including manufacturing of Regenerated Polyester Staple Fibre (RPSF), Recycled Partially Oriented Yarn (RPOY), Recycled PET (RPET), Polypropylene Staple Fibre (PPSF) and Washed PET Flakes. GEL is exposed to the risk of healthy ramp up of operations going forward as all these three projects are near to completion stage. The ongoing capex is significant considering GEL's existing networth. Company had exposure of Rs.142.80 crore and has provided corporate guarantee amounting to Rs.370.75 crore towards the bank facilities availed by these entities as on March 31, 2022. The adjusted overall gearing considering the group exposure stood at 1.16x in FY22 (PY:0.40x). Though the projects are approaching the completion stage, but quick ramp up of operations at these facilities with sufficient cash generation remains to be seen.

Exposure to volatility in finished goods 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, as the spread between the two gets narrowed. 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. Hence, 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.

Working capital intensive operations
The company's operations are working capital intensive though operating cycle improved in FY22 but continues to remain elongated. It is largely due to higher inventory holding period of 77 days in FY22 (PY: 90 days). Further, there has been some improvement in the collection period in FY22 due to which operating cycle improved to 97 days in FY22 (PY: 121 days).

Liquidity: Adequate
The company has adequate liquidity position marked by healthy cash and liquid investments of ~Rs.69 crore as on March 31, 2022. There is sufficient cushion between expected cash accruals and repayment obligations of Rs.8.48 crore for FY23. Current ratio of the company stood healthy at 1.94x as on March 31, 2022 (PY: 2.19x as on March 31, 2021). Also, average working capital utilization of fund-based limits stood at 67.51% for the trailing 12 months ended June 2022.

Analytical approach

Standalone, factoring exposure towards subsidiaries in the form of loans & advances/investments and corporate guarantee

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

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 96,600 TPA (Tonnes Per Annum) of RPSF and 10,200 TPA of Yarn as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	749.79	1,021.28	292.95
PBILDT	83.55	116.33	27.43
PAT	45.19	69.55	15.29
Overall gearing (times)	0.25	0.24	NA
Interest coverage (times)	9.59	11.92	10.01

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	160.00	CARE A; Stable
Term Loan-Long Term		-	-	31/03/2027	29.05	CARE A; Stable
Non-fund-based-Short Term		-	-	-	23.50	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	160.00	CARE A; Stable	-	1)CARE A; Stable (23-Dec-21) 2)CARE A (CWD) (14-Jun-21) 3)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (11-Mar-20)
2	Term Loan-Long Term	LT	29.05	CARE A; Stable	-	1)CARE A; Stable (23-Dec-21) 2)CARE A (CWD) (14-Jun-21) 3)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (11-Mar-20)
3	Non-fund-based-Short Term	ST	23.50	CARE A1	-	1)CARE A1 (23-Dec-21) 2)CARE A1 (CWD) (14-Jun-21) 3)CARE A1 (05-Apr-21)	-	1)CARE A1 (11-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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