Ganesha Ecosphere Limited

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	147.50 (Reduced from 166.50)	CARE A+; Stable	Upgraded from CARE A; Stable
Short-term bank facilities	62.60 (Enhanced from 23.50)	CARE A1+	Upgraded from CARE A1
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Ganesha Ecosphere Limited (GEL) factors in improvement in the operational and financial performance of the company in FY24 (Audited) (refers to April 01 to March 31) and H1FY25 (Unaudited) (refers to April 01 to September 30) characterised by healthy revenue profile, and growth in profitability and debt coverage indicators. Revision in ratings also factors in improvement in the company's capital structure and liquidity position post successful funds raising through qualified institutional placement (QIP) of ₹350 crore and through preferential issue of ₹150 crore (25% of warrant money already received and the balance to be received in FY26) in January 2024. The net proceed was largely utilised towards reduction of the company's total debt and to finance greenfield projects undertaken by subsidiaries. On a consolidated basis, total debt reduced from ₹506.28 crore as on March 31, 2023, to ₹401.98 crore as on March 31, 2024. Ratings continue to derive strength from its experienced promoters, GEL's dominant position into recycled polyester staple fibre (RPSF) business with its presence in both fibre and yarn leading to integrated nature of operations and improving financial risk profile bolstered by fresh issue fuelled deleveraging efforts. Ratings also continue to take comfort from GEL's efficient procurement and distribution network, diversified customer base, and healthy liquidity profile. Ratings also take cognisance of scaling up of operations in the subsidiaries following the successful completion of the greenfield project, consequently, the consolidated financial performance is anticipated to improve significantly, driven by the greater efficiency of the new facilities, expanding the products basket through backward integration and stabilisation of the operations in subsidiary companies and the better margin-driven product portfolio.

However, these rating strengths continue to remain constrained by risk associated with further scaling up of operations under its subsidiaries, Ganesha Ecotech Private Limited (GETPL; rated 'CARE A+(CE); Stable/CARE BBB+; Positive'), Ganesha Ecopet Private Limited (GEPPL), and Ganesha Overseas Private Limited (GOPL), working capital intensive operations of GEL, and exposure to volatility in the finished goods prices which are linked to virgin polyester staple fibre (PSF).

CARE Ratings Limited (CARE Ratings) has also withdrawn long-term ratings assigned to term loans based on the 'No Dues Certificate' received from the State Bank of India and Citi Bank that have extended the facilities rated by CARE Ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin beyond 14% and above while maintaining the scale of operations above ₹1,650 crore on a sustained basis.
- Improvement in return on capital employed (ROCE) and return on net worth (RONW) beyond 12% and 14%, respectively, on sustained basis.
- Overall gearing below 0.30x and total debt/PBILDT of lesser than 2.50x on a sustained basis.
- Diversification in overall product portfolio through subsidiaries supported by scaling up of the operations under subsidiaries.

Negative factors

- Decline in scale of operations below ₹1,000 crore and PBILDT margin below 9% on a sustained basis.
- Elongation in operating cycle beyond 150 days adversely impacting the liquidity position of the company on a sustained basis.
- Any major debt-funded CAPEX resulting into weakening of financial risk profile of the company.

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

Analytical approach: Consolidated (including three wholly owned subsidiaries, Ganesha Ecotech Private Limited (GETPL), GOPL, and GEPPL. The list of subsidiaries considered for consolidation is given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' opinion that GEL would continue to benefit from the experienced promoters with long track record of operations and its dominant market position with integration in both fibre and yarn.

Detailed description of key rating drivers:

Key strengths

Healthy revenue profile with improvement in PBILDT margins in FY24 with significant growth in H1FY25

The company has reported healthy total operating income (TOI) of ₹1,121.92 crore in FY24 against TOI of ₹1,179.38 crore in FY23, reflecting de-growth of 4.87%. This marginal moderation was attributed to drop in prices of yarns and fibre due to stiff competition faced by the Indian textile industry owing to cheaper fabrics from China, Vietnam, Bangladesh and other neighbouring countries, leading to decline in average sales realisation of RPSF and yarn in FY24, with sales quantity remaining at similar levels. Despite this, PBILDT margins improved from 10.81% in FY23 to 12.20% in FY24, driven by positive contributions from subsidiaries. However, profit after tax (PAT) margins decreased from 5.89% in FY23 to 3.62% in FY24, due to lower fixed cost absorption in the subsidiaries and increased interest costs, which rose from ₹16.94 crore in FY23 to ₹44.90 crore in FY24, following the cessation of interest capitalisation. In H1FY25, GEL has reported TOI of ₹723.36 crore registering a growth of 35.82% on YoY basis with PBILDT margin of 14.23%, the significant growth was supported by healthy ramp up of operations in subsidiaries.

Successful fund raising through QIP and Preferential Issue in FY24

The company has successfully raised fund aggregating ~₹500 crore, with ₹350 crore through QIP and ₹150 crore through preferential issue of convertible warrants (25% of warrant money already received and the balance to be received in FY26) in January 2024. These funds are being used partly to repay debt and to finance greenfield projects undertaken by subsidiaries, and other projects planned by management for the future. This has reduced the Group's total debt by over ~₹104 crore in FY24, significantly enhancing the capitalisation and coverage indicators for the consolidated entity in the same period.

Comfortable financial risk profile

The financial risk profile of the company continues to remain comfortable marked by healthy net worth base, comfortable overall gearing, and debt coverage indicators. GEL's is having healthy net worth base of ₹1,051.75 crore as on March 31, 2024, significantly improved from ₹637.25 crore as on March 31, 2023, owing to infusion of fresh capital through QIP issue, preferential issue and healthy internal accruals in FY24. The overall gearing improved from 0.79x as on March 31, 2023, to 0.38x as on March 31, 2024, as the debt levels reduced from ₹506.28 crore in FY23 to ₹401.98 crore in FY24, as company prepaid some of the term loans in FY24 from the QIP proceeds. The total debt/PBILDT improved from 3.97x in FY23 to 2.94x in FY24. The interest coverage moderated to 3.05x for FY24 from 7.53x in FY23 considering increase in the interest cost following the cessation of interest capitalisation. The company has comfortable debt coverage indicators with total debt/ gross cash accruals (TD/GCA) and total debt to PBILDT of 4.64x and 2.94x, respectively, as on March 31, 2024, which are expected to improve going forward with gradual ramp-up of operations in subsidiaries.

Scaling up of operations following successful completion of the greenfield project in subsidiaries

The subsidiaries GETPL, GEPPL, and GOPL has successfully completed the greenfield project in their respective manufacturing plants from February and April 2023, making FY24 the first full year of operations. This scaling up of the newly commissioned facilities is expected to further enhance the operating profile by increasing market presence, broadening the geographical footprint, and enriching the product portfolio. Consequently, the consolidated financial performance is anticipated to improve significantly, driven by the greater efficiency of the new facilities and the better margin-driven product portfolio.

Experienced promoters with long track record of operations in textile industry

The Ganesha group and flagship entity, GEL, is promoted and managed by Shyam Sunder Sharmma (Chairman, GEL) having extensive experience of over five decades in the textile industry. He is further assisted by his son Sharad Sharma (Managing Director) who has an experience of over three decades in marketing and distribution and looks after overall operations of the company and well-qualified and experienced professionals having rich experience in the textile industry. The long-established presence of the company has helped in maintaining its dominant position considering presence in both fibre and yarn segments as GEL is one of the leading RPSF players in the country and expanding the products basket through backward integration through subsidiaries.

Dominant market position of GEL with integration in both fibre and yarn

GEL has been able to maintain its dominant position considering presence in both fibre and yarn segments. GEL is one of the leading RPSF players in the country with a total installed capacity of 96,600 MTPA and 10,200 MTPA for yarn as on March 31, 2024. The company uses ~7%-10% of own RPSF produce to manufacture spun yarn at Bilaspur plant. Due to partially integrated nature of operations, the company saves on the overhead cost. GEL has capacity for converting PET bottles to PET flakes to make fibre and further making yarn from fibre.

Established relationship with diversified clientele base

The top 10 customers contributed ~17% of total income in FY24 (PY: 22%), thus indicating diversified customer profile in terms of revenue. The company supplies to B2B clients only across a diverse set of industries including OEMs to automobile industry, spinning mills, geo-textiles, medical and packaging, textiles (T-Shirts, body warmers, among others) and non-woven applications (non-woven air filter fabric, geo textiles, carpets, car upholstery, fillings for pillows, duvets, and toys among others).

Key weaknesses

Stabilisation risk from recently commissioned greenfield projects in subsidiaries

The subsidiary companies of GEL, Ganesha Ecotech Private Limited, GOPL and GEPPL have started commercial operations at their manufacturing plants from February and April 2023, respectively, and marking FY24 as first year of full operations. However, stabilisation of the same is yet to been seen which may result in further improvement in scale of operations and cash generation at consolidated level going forward.

Working capital intensive operations

Operations of the company remain working capital intensive with high inventory holding as average inventory period stood at 112 days as on March 31, 2024 (PY: 86 days), owing to increased levels of the finished goods inventory while GEL mainly procures its raw material ~80% of the total requirement from vendors/scrap dealers across India either on cash basis or on credit period of 5-7 days. Average collection and creditor days stood moderate at 43 days and 27 days, respectively, as on March 31, 2024 (PY: 36 days and 24 days) resulting into elevated operating cycle at 127 days as on March 31, 2024 (PY: 98 days).

Exposure to volatility in finished goods prices

PSF is a synthetic man-made fibre made directly from purified terephthalic acid (PTA) and mono ethylene glycol (MEG) or polyethylene terephthalate (PET Chips), while recycled polyester staple fibre (RPSF) is made from recycled PET Chips, polyester waste, or post-consumer PET bottle flakes. RPSF's price is benchmarked against the prices of virgin PSF, which in turn, is linked to the prices of PTA and MEG (, derivatives of crude oil). RPSF's prices remain at a 10-20% discount to virgin PSF prices. Any downward movement in crude oil prices makes RPSF less attractive against 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 other significant usage apart from RPSF manufacturing. Hence, RPSF manufacturers have ability to negotiate input raw material prices in times of declining RPSF prices as evident in resilient margins of GEL over the years.

Liquidity: Strong

Liquidity is strong marked by healthy buffer available between expected cash accruals of ~₹162.52 crore in FY25 against nominal repayment obligations of ₹17.67 crore. With a nominal gearing of 0.38x as on March 31, 2024, GEL has sufficient gearing headroom, to raise additional debt for its capex requirements, if any. Its unutilised bank lines of close to ₹65 crore as on September 30, 2024, are more than adequate to meet its incremental working capital needs over the near term. Liquidity is further aided by free cash and bank balance of ₹123.92 crore as on September 30, 2024. The company will receive the balance 75% (₹776.25

per warrants on 14.49 lakh warrants), amounting to ₹112.48 crore from the warrant holders at the time of subscription under the preferential issue by FY26.

Environment, social, and governance (ESG) risks

Environmental	With recycling plastic waste into useful products, GEL brings a difference to businesses, environment & communities. The packaging waste, hazardous waste and e-waste are sold to authorised vendors for safe disposal. The Company has set up an Effluent Treatment Plant (ETP) for the responsible discharge of waste. Regarding other types of waste, such as ash and sludge, GEL employs a sustainable practice of landfilling for disposal. The company converted 125,000+ MTPA PET waste and recycled 7.5 billion+ PET bottles. The company's Warangal facility has been zero liquid discharge with recycling and reusing ~95% of water used to wash waste. The company shifted towards renewable energy plants across its production facilities in Temra, Rudrapur, Bilaspur, and Kanpur with a total installed capacity of 11.49 MWp of rooftop solar power installations and partnered with a Independent power producer for supply of solar power and purchased 17.43 MW for captive consumption.
Social	The company has expended ₹1.55 crore in FY24 (PY: ₹1.47 crore) towards CSR activities for promoting education among children, women & differently abled, promoting healthcare including preventive healthcare and rural development.
Governance	The company's board of directors comprise of four non-executive and independent directors. The company also conducted (one) meeting of Independent Directors of the Company held on March 30, 2024, to evaluate the performance of Non-Independent Directors and the Board of Directors as a whole with the quality, content, and timeliness of flow of information.

Applicable criteria

Policy on Default Recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Short Term Instruments
Manmade Yarn-Methodology
Manufacturing Companies
Withdrawal Policy

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

GEL was incorporated in year 1987 by Shyam Sunder Sharma (Chairman) and Sharad Sharma (Managing Director). GEL is engaged in manufacturing regenerated polyester staple fibre (RPSF), dyed yarn and spun yarn with an aggregate installed capacity of 96,600 tons (RPSF) and 10,200 tons (Yarn) per annum, respectively, through its three manufacturing facilities at Kanpur (Uttar Pradesh), Rudrapur (Uttarakhand), and Bilaspur (Chhattisgarh). GEL has three wholly owned subsidiaries, GETPL, GEPPL based in South India, and GOPL based in Nepal.

Brief Financials (₹ crore)- Standalone	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,132.61	972.25	499.41
PBILDT	123.60	96.65	68.36
PAT	73.32	62.48	41.24
Overall gearing (times)	0.24	0.01	0.06
Interest coverage (times)	8.75	6.37	55.58

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials (₹ crore)- Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,179.38	1121.92	723.36
PBILDT	127.54	136.85	102.97
PAT	69.46	40.57	49.66
Overall gearing (times)	0.79	0.38	0.44
Interest coverage (times)	7.53	3.05	5.75

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based-Long term		-	-	-	147.50	CARE A+; Stable
Non-fund-based-Short term		-	-	-	62.60	CARE A1+
Term loan-Long term		-	-	31/03/2027	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long term	LT	147.50	CARE A+; Stable	-	1)CARE A; Stable (01-Dec-23)	1)CARE A; Stable (10-Oct-22)	1)CARE A; Stable (23-Dec-21) 2)CARE A (CW with Developing Implications) (14-Jun-21) 3)CARE A; Stable (05-Apr-21)
2	Term loan-Long term	LT	-	-	-	1)CARE A; Stable (01-Dec-23)	1)CARE A; Stable (10-Oct-22)	1)CARE A; Stable (23-Dec-21) 2)CARE A (CW with Developing Implications) (14-Jun-21) 3)CARE A; Stable (05-Apr-21)
3	Non-fund-based-Short term	ST	62.60	CARE A1+	-	1)CARE A1 (01-Dec-23)	1)CARE A1 (10-Oct-22)	1)CARE A1 (23-Dec-21) 2)CARE A1 (CW with Developing Implications) (14-Jun-21) 3)CARE A1 (05-Apr-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ganesha Ecotech Private Limited (GETPL)	Full	Subsidiary
2	Ganesha Overseas Private Limited (GOPL)	Full	Subsidiary
3	Ganesha Ecopet Private Limited (GEPPL)	Full	Subsidiary

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

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About us:
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