Ganesha Ecosphere Limited

December 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	196.24 (Reduced from 196.83)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	23.50	CARE A1 (A One)	Reaffirmed and removed from Credit watch with Developing Implications
Total Bank Facilities	**219.74 (Rs. Two Hundred Nineteen Crore and Seventy-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings assigned to the bank facilities of Ganesha Ecosphere Limited (GEL) and removed it from 'Credit Watch with Developing Implications'. The ratings have been removed from credit watch with developing implications in view of no significant impact on the operational and financial performance of the company from the fire accident at company's Polyester Staple Fiber (PSF) unit located at Kanpur Dehat in June 2021. The damaged capacity comprises only 10% of the total installed capacity of Regenerated Polyester Staple Fibre (RPSF) business and the company has reported 91% utilization in H1FY22 (refers to the period April 01 to September 30) despite fire incident. Further, the company is in process of finalising the claim with insurance company for the re-instatement of plant.

The ratings continue to derive strength from extensive experience of promoters and the management team. The ratings also continue to derive comfort from the sustained dominant position of GEL in 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 characterised by healthy profitability and debt coverage indicators of the company.

The above strengths are partially offset by exposure of risk associated with under-implementation projects under its wholly owned subsidiaries, 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 takes in to 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:

- Improvement in PBILDT margin beyond 13% along with total operating income of more than Rs.900 crore on a 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 1.25x.
- Moderation in PBILDT margins below 10% on sustained basis.
- Increase in the gross operating cycle beyond 180 days on sustained basis.
- Any time or cost overrun on the on-going project under its subsidiaries.

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.

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 September 30, 2021. 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.

[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 remains comfortable marked by healthy profitability margins and debt coverage indicators. The profitability margins of GEL though moderated over the past three years, remained healthy given the benefit of economies of scale, decent product portfolio, efficient procurement and sales strategy. The PBILDT margin of the company in FY21 stood at 12.34% (PY: 13.04%). Further the company has comfortable debt coverage indicators with interest coverage ratio and total debt/ gross cash accruals of 10.77x and 1.36x respectively as on March 31, 2021. The capital structure of the company stood comfortable with overall gearing of 0.25x as on March 31, 2021 (PY 0.19x). The total operating income of the company moderated in FY21 largely due to softening of realizations coupled with impact of Covid-19 pandemic lockdown. However, the company reported growth in income and profitability during H1FY22 with a total income of Rs.453.12 and PBILDT of Rs.52.53 crore as against a total operating income and profitability of Rs.273.11 crore and Rs.25.21 crore respectively in H1FY21.

Efficient raw material procurement arrangement
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 centres. The company has diversified vendor/supplier profile with top five suppliers contributing 16%-22% of total purchases over past three years.

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 8% 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.

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 Weaknesses
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 tie-up has been done which mitigates the funding risk and the projects are expected to start commercial operations from June 2022. 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 remains 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. However, any time or cost overrun impacting the financial profile of GEL will remain key monitorable.

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 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 FY21 and operating cycle stood at 121 days in FY21, increased from 91 days in FY20. The increase in working capital intensity has been funded partially through internal accruals along with utilization of working capital limits which stood at 65% for the trailing 12 months ended November 2021.

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. 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 healthy cash and liquid investments of ~Rs. 77 crore as on Sep 30, 2021. Further, the company is expected to generate adequate cash accruals in FY22 vis-à-vis its repayment obligations of

Rs.6.83 crore. Current ratio of the company stood healthy at 2.20x as on March 31, 2021 (PY: 3.12x as on March 31, 2020). Also, average working capital utilization of fund-based limits stood at 65.33% for the trailing 12 months ended November 2021.

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

Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Manufacturing Companies
Rating Methodology: Notching by factoring linkages in Ratings

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)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	892.99	759.99	453.12
PBILDT	116.49	93.75	52.53
PAT	63.88	45.19	6.32
Overall gearing (times)	0.19	0.25	0.25
Interest coverage (times)	14.99	10.77	10.63

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	160.00	CARE A; Stable
Term Loan-Long Term		-	-	March 31, 2027	36.24	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	160.00	CARE A; Stable	1)CARE A (CWD) (14-Jun-21) 2)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (11-Mar-20)	1)CARE A; Stable (29-Jan-19) 2)CARE A; Stable (21-Aug-18)
2	Term Loan-Long Term	LT	36.24	CARE A; Stable	1)CARE A (CWD) (14-Jun-21) 2)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (11-Mar-20)	1)CARE A; Stable (29-Jan-19) 2)CARE A; Stable (21-Aug-18)
3	Non-fund-based-Short Term	ST	23.50	CARE A1	1)CARE A1 (CWD) (14-Jun-21) 2)CARE A1 (05-Apr-21)	-	1)CARE A1 (11-Mar-20)	1)CARE A1 (29-Jan-19) 2)CARE A1; Stable (21-Aug-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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