

## Ganesh Ecosphere Limited

August 21, 2018

### Ratings

| Facilities                 | Amount<br>(Rs. crore)  | Ratings <sup>1</sup>                             | Rating Action   |
|----------------------------|--|--|---|
| Long-term Bank Facilities  | 242.62   | CARE A; Stable<br>(Single A; Outlook:<br>Stable) | Revised from<br>CARE A-; Stable<br>(Single A Minus; Outlook:<br>Stable) |
| Short-term Bank Facilities | 24.64  | CARE A1<br>(A One)                               | Revised from<br>CARE A2+<br>(A Two Plus)                                |
| <b>Total Facilities</b>    | <b>267.26</b><br><b>(Rupees Two hundred and sixty<br/>seven crore and twenty six<br/>lakhs only)</b> |  |   |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Ganesh Ecosphere Limited (GEL) takes into account the successful completion of the Qualified Institutional Placement (QIP) issue of Rs. 100 crore in May 2018, resulting in significant improvement in GELs debt metrics as the funds have been deployed for repayment of debt and working capital borrowings. CARE also notes that GEL has commissioned the expansion-cum-modernization project of its RPSF plant at Bilaspur (Uttar Pradesh) with a total capacity addition of 21,000 MT from February 2018 which is likely to increase the sales in FY19. The expected enhanced scale of operations and reduced interest expenses is projected to improve profitability and further strengthen GELs solvency and debt coverage indicators.

Further, GEL continues to derive strength from extensive experience of promoters and the management team in regenerated polyester staple fibre (RPSF) business, fully-integrated operations and efficient raw material procurement and product distribution network.

The above strengths are partially offset by volatility in the finished goods prices which are linked to virgin polyester staple fibre. Going forward, GEL's ability maintain its debt-coverage indicators and to sustain profitability margins amidst volatile raw material prices, optimum utilization of its enhanced capacities and timely procurement of PET bottles at competitive prices would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Comfortable financial profile marked by improved solvency and debt-coverage indicators resulting from the proceeds of the QIP issue of Rs. 100 crore

GEL has raised funds to the tune of Rs. 100 crore through a QIP issue in May 2018. CARE notes that GEL has reduced debt to the tune of Rs. 70 crore till June 30, 2018 and the balance funds are parked in Bank FD.

Further, GELs financial profile continues to remain comfortable with consistent improvement in total operating income, comfortable profitability margins, solvency indicators and liquidity profile. The total operating income witnessed a growth of 11.83% in FY18 (refers to the period April 1 to March 31) on account of increase in the quantity sold of RPSF. The overall gearing of the company marginally decreased to 0.76x as on March 31, 2018 (PY: 0.60x) due to higher working capital borrowings and unsecured loan from promoters. Other coverage indicators improved during the year on account of y-o-y improving cash accruals. Total Debt to GCA and interest coverage ratio stood at 3.28x and 6.12x respectively. However, with the reduction of debt, the debt-coverage indicators are likely to improve. As on June 30, 2018, the overall gearing of the company stood at 0.36x and is projected to be 0.18x as on March 31, 2019.

Further in Q1FY19, GEL reported a total income of Rs. 240.50 crore and net profit of Rs. 10.51 crore.

#### Extensive experience of promoters and management team

The company has been promoted by Mr Shyam S Sharma, Chairman-cum-Managing Director, who has experience of approximately five decades in the textile industry including 25 years with various Birla group companies. He is assisted by his son Mr Shard Sharma, Joint Managing Director.

<sup>2</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

**Completion of Bilaspur project, minimal project risk**

The company had undertaken an expansion-cum-modernization project of its RPSF plant at Bilaspur (Uttar Pradesh) with a total capacity addition of 21,000 MT. CARE notes that the project is completed and commercial production has started in February 2018. The project was completed with a total cost of Rs.95 crore (original estimated project cost was Rs.120 crore). The same was funded through a debt/internal accrual of 2.33:1.

**Efficient raw material procurement arrangement**

During FY18, GEL processed 4.92 billion (PY: 4.52 billion) PET bottles. GEL has established strong relations and collection network across the country. As on March 31, 2018, the company had more than 20 collection centres in various strategic locations of the country along with more than 100 vendor association under its PET collection model.

Further, GEL will not be impacted by the recent ban on plastic by the Maharashtra Government, as the ban is on small PET bottles (less than 200 ML) and plastic which is less than 50 microns. Instead, now the empty PET bottles will be routed to the recyclers in an organized way as the bottler/brand owner will have to compulsorily pay Rs.1-2 on each bottle to consumers in lieu of refund of empty bottles. These regulations will create positive opportunity for GEL to have control on procurement of pet bottles from the source itself at a lower cost.

**Established product distribution network with diversified customer profile**

Over the years, GEL has developed strong diversified network of agents, dealers and consumers both in domestic and overseas market. GEL has sales offices at Delhi, Mumbai, Ludhiana, Panipat, Jaipur, Kolkata and Kanpur. The top 10 customers contributed around 23.35% of total income during FY17 and 25.41% during 9MFY18, thus indicating fairly diversified customer profile in terms of revenue.

**Fully integrated operations marked by presence in both fibre and yarn**

GEL has fully integrated operations in terms of converting PET bottles to PET flakes, and making fibre and yarn from PET flakes. GEL is one of the largest RPSF player in India with a total installed capacity of 118,800 MTPA as on March 31, 2018.

**Key Rating Weakness****Volatility in raw material prices**

The price of RPSF 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 are at a discount (approximately 15-20%) to virgin PSF prices (FY17 average price: Rs. 91/kg). 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 PET waste doesn't have any other significant usage apart from 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.

**GST Impact**

Post the implementation of GST, there has been a change in effective tax rates for RPSF which has resulted in an increase in the effective tax (net of input credit) for RPSF manufacturers. This has brought RPSF manufacturers at par with the VPSF manufacturers in terms of taxation, thereby reducing their price competitiveness.

**Analytical approach:** Standalone

**Applicable Criteria**

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[CARE's methodology for financial ratios \(Non Financial sector\)](#)

**About the Company**

GEL was incorporated in 1987 by Mr. Shyam S. Sharma, 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 March 31, 2018.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income       | 676.71   | 756.74   |
| PBILDT                       | 81.54    | 89.14    |
| PAT                          | 29.82    | 35.23    |
| Overall gearing (times)      | 0.59     | 0.76     |
| Interest coverage (times)    | 5.48     | 6.12     |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr Manek Narang

Tel: 0114533 3233

Mobile: 9810596225

Email: [manek.narang@careratings.com](mailto:manek.narang@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## 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      | -                | -           | -             | 128.50                        | CARE A; Stable                            |
| Term Loan-Long Term       | -                | -           | -             | 114.12                        | CARE A; Stable                            |
| Non-fund-based-Short Term | -                | -           | -             | 24.64                         | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018   | Date(s) & Rating(s) assigned in 2016-2017                | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based-Long Term                   | LT              | 128.50                         | CARE A; Stable | -   | 1)CARE A-; Stable (28-Mar-18)<br>2)CARE A-; Stable (03-Jul-17)<br>3)CARE A-; Stable (21-Apr-17) | 1)CARE A-; Stable (23-Mar-17)<br>2)CARE BBB+ (11-Apr-16) | 1)CARE BBB+ (22-Apr-15)                   |
| 2.      | Term Loan-Long Term                    | LT              | 114.12                         | CARE A; Stable | -   | 1)CARE A-; Stable (28-Mar-18)<br>2)CARE A-; Stable (03-Jul-17)<br>3)CARE A-; Stable (21-Apr-17) | 1)CARE A-; Stable (23-Mar-17)<br>2)CARE BBB+ (11-Apr-16) | 1)CARE BBB+ (22-Apr-15)                   |
| 3.      | Non-fund-based-Short Term              | ST              | 24.64                          | CARE A1;       | -   | 1)CARE A2+ (28-Mar-18)<br>2)CARE A2+ (03-Jul-17)<br>3)CARE A2+ (21-Apr-17)                      | 1)CARE A2+ (23-Mar-17)<br>2)CARE A2+ (11-Apr-16)         | 1)CARE A2 (22-Apr-15)                     |

**CONTACT****Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC0716