Ganesha Ecosphere Limited

January 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	247.90	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	23.50	**CARE A1 (A One)**	**Reaffirmed**
Total Facilities	**271.40 (Rupees Two hundred and seventy one crore and forty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in 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 in regenerated polyester staple fibre (RPSF) business, presence of the company in both fibre and yarn, comfortable financial profile, successful completion of the Qualified Institutional Placement (QIP) issue of Rs. 100 crore in May 2018 and efficient raw material procurement and product distribution network. CARE 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.

The above strengths are partially offset by project risk relating to the new Greenfield capacity expansion (proposed) and 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 for the scaled up capacity at competitive prices would be the key rating sensitivities.

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 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. Sharad Sharma, Joint 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

During FY18, GEL processed 4.92 billion (PY: 4.52 billion) PET bottles. GEL has established strong relations and an all-India collection network. 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 associations under its PET collection model. The company also has tie-up with FMCG companies like Bisleri & Coca-Cola to collect post consumption PET waste to meet its raw material requirements.

Further, GEL is not 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.

Presence 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 largest RPSF players in India with a total installed capacity of 108,600 MTPA as on December 31, 2018. GEL has capacity for converting PET bottles to PET flakes, and making fibre and yarn from PET flakes.

Established product distribution network with diversified customer profile

Over the years, GEL has developed a 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 company is

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

also exporting nearly 5% of its sales to Belgium, Germany, Spain, U.K., Italy, USA, Malaysia, Indonesia, Egypt, Dubai, Israel, Morocco, Bangladesh, Turkey and Nepal, however the same is increasing. The top 10 customers contributed around 30% of total income during FY18 and 29.06% during H1FY19, thus indicating fairly diversified customer profile in terms of revenue.

Comfortable financial profile marked by consistent improvement in total operating income, comfortable profitability margins and moderate debt solvency indicators

GELs total operating income witnessed a significant growth of 11.76% in FY18 (refers to the period April 1 to March 31) on account of an increase in the quantity sold of RPSF along with increased sales realization of RPSF from Rs. 71/kg in FY17 to Rs. 73/kg in FY18. The PBILDT margin of the company marginally decreased to 11.43% during FY18 (PY: 11.76%), however the PAT margin improved from 4.42% in FY17 to 4.67% in FY18 due to reduced interest costs. The overall gearing of the company moderated to 0.75x as on March 31, 2018 on account of an increase working capital borrowings of Rs. 90.38 Crore and buyers credit of Rs. 32.23 crore. Other solvency parameters also marginally moderated during the year. Total Debt to GCA stood at 3.25x as on March 31, 2018 (PY: 2.60x). However, interest coverage ratio improved to 5.91x in FY18 (PY: 5.33x) due to lower interest payments.

Further in May 2018, GEL has raised funds to the tune of Rs.100 crore through a QIP issue. CARE notes that the QIP funds are currently utilized towards repayment of unsecured loan from promoters and reduction in working capital borrowings, though the same may be used for future capex plans.

In H1FY19, GEL achieved total income of Rs. 503.7 crore vis-à-vis Rs. 366.25 crore in H1FY18 witnessing a growth of 37.53%. The same was due to expansion of capacity at the Bilaspur plant and revival of demand post GST implementation in FY18. Further, PBILDT and PBT witnessed a growth of 35.20% and 47.88% to reach Rs. 55.62 crore and Rs. 36.60 crore respectively.

Liquidity Profile

The current ratio of GEL stood at 1.18x as on March 31, 2018. Further, the company has been managing a comfortable working capital cycle of 45-60 days. However, in FY18 the working capital cycle increased to 72 days on account of increased inventory holding days to 64 days from 51 days due to GST implementation. As fabric was not subjected to tax in earlier tax system but has now been brought under GST which affected the demand and led to slow-down in the textile sector. Further, because of commencement of the expanded capacity of RPSF at Bilaspur, the working capital requirement has increased. However, post QIP issue, the working capital borrowings have been repaid. The average working capital utilization remained comfortable at 41.31% in the 12 months ended Nov-2018. Further, GEL had cash and bank balance of Rs. 4.73 crore as on March 31, 2018.

Key Rating Weakness

Project Risk

GEL is planning to increase its installed capacity for RPSF by 48,000 MTPA at a greenfield location in the Nellore District of Andhra Pradesh, taking the consolidated RPSF capacity of the company from 108,600 TPA to 156,600 TPA (Increase of 44%). The proposed capacity would be implemented in two phases and would span over 24 months - COD of first phase is expected by end of January, 2020 (FY2020) and the second phase by January 2022 (FY2022). Total investment requirement is expected to be around Rs. 250 crores likely to be funded out of a mix of debt, internal accruals and funds raised through QIP Issue.

The investment required for both the phases is Rs. 125 crore each resulting in capacity addition of 24,000 MT in each phase. Phase 1 is planned to be funded through the past QIP proceeds of Rs. 75 crore and debt of Rs. 50 crore.

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. 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 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.

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 which has a favourable outlook. 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 in apparels and home textile segments will be supported by factors like rise in disposable income, growing consumer class, rising urbanization, increasing retail penetration and increased usage of plastic money etc. Further, GoI's initiatives towards a stronger plastic waste management policy in the country is expected to have a positive impact on the industry and would augur well for organized market players such as GEL.

Also, globally India is one of the fastest growing markets for PET resins. Emerging economy, new capacity additions and increasing consumption of packaged food & beverages are further expected to aid the Indian market of PET resins during 2016-25. The PET resin market in India is pegged at US$1 bn and is expected to grow at a CAGR of 8.6% to reach US$9.1 bn by 2025.

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 December 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	674.44	653.74
PBILDT	79.28	86.13
PAT	29.82	35.22
Overall gearing (times)	0.59	0.75
Interest coverage (times)	5.33	5.91

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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	-	-	-	125.00	CARE A; Stable
Term Loan-Long Term	-	-	March 2027	122.90	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 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	125.00	CARE A; Stable	1)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)	1)CARE A-; Stable (23-Mar-17) 2)CARE BBB+ (11-Apr-16)	1)CARE BBB+ (22-Apr-15)
2.	Term Loan-Long Term	LT	122.90	CARE A; Stable	1)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)	1)CARE A-; Stable (23-Mar-17) 2)CARE BBB+ (11-Apr-16)	1)CARE BBB+ (22-Apr-15)
3.	Non-fund-based-Short Term	ST	23.50	CARE A1	1)CARE A1; Stable (21-Aug-18)	1)CARE A2+ (28-Mar-18) 2)CARE A2+ (03-Jul-17) 3)CARE A2+ (21-Apr-17)	1)CARE A2+ (23-Mar-17) 2)CARE A2+ (11-Apr-16)	1)CARE A2 (22-Apr-15)

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