Ganesha Ecosphere Ltd

March 11, 2020

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 proposed project to be executed through its wholly owned subsidiary named **Ganesha Ecopet Private Limited (GEPL)** 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 prices and timely procurement of PET bottles for the scaled up capacity at competitive prices would be the key rating sensitivities.

Rating Sensitivities

Positive Factors:

- Improvement in PBILDT Margins beyond 16% along with increasing TOI.
- Improvement in operating cycle below 55 days.

Negative Factors

- Increase in Overall Gearing beyond 1x
- Moderation in PBILDT margins below 10%.

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

GEL processed ~6.45 billion in FY19 (PY: 4.92 billion) and ~4.5 billion in 9MFY20 PET bottles. GEL has established strong relations and collection network across the country based on which the company mobilises ~325 tonnes of PET waste every day. Further, GEL used to import the empty (washed) PET bottles from Bangladesh and Vietnam which was ~6-7% of the total raw material. However, now the government has imposed a ban over import of solid waste plastic, but the same has not impacted much to GEL.

GEL mainly procures its raw material (~80% of the required raw material) from vendors/scrap dealers which are majorly based out of North India. These vendors get fixed margins from GEL. Hence the price of Raw Material is mainly based on price of the finished product.

The average output to input ratio is 0.85x for the company.

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

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, 2019. GEL has capacity for converting PET bottles to PET flakes, and making fibre from PET flakes and yarn from fibre.

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 also exporting nearly 7% 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 27% of total income during FY19 and 22% during 9MFY20, 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
GEL's total operating income has demonstrated a CAGR of 23.09% during FY17-FY19. The total operating income witnessed a significant growth of 35.65% in FY19 on account of increase in the quantity sold of RPSF from 75,721 MT in FY18 to 1,03,568 MT in FY19 (i.e. by ~37%) mainly on account of expansion in production capacity which started in Feb 2018. **:** GEL has been able to consistently achieve PBILDT margin of over 10% during last three years. The PBILDT margin of the company increased by 171 bps to 13.56% during FY18 (PY: 11.85%) The PAT margin also improved from 4.65% in FY18 to 6.03% in FY19 mainly on account of reduction in Raw material prices and savings in electricity cost on account of recently installed solar power plant by the company (funded through internal accruals). The overall gearing of the company improved to 0.26x as on March 31, 2019 (PY: 0.80x) on account of acceleration of profits to the networth and funds raised through QIP. Other solvency parameters also improved during the year. Interest coverage ratio improved to 13.27x in FY19 (PY: 6.06x) due to lower interest payments and higher PBILDT.
In 9mFY20, GEL achieved total income of Rs. 693.23 crore vis-à-vis Rs. 770.21 crore in 9mFY19 witnessing a de-growth of 10% on account of decline in market prices of the product. However, PBILDT and PBT margins improved to 14.41% and 6.87% respectively in 9mFY20.

Key Rating Weakness
Project Risk
The company has incorporated a wholly owned subsidiary named **Ganesha Ecopet Private Limited (GEPL)** on Nov 19, 2019 for a new project in same line of business regarding further value additions to the product. The studies are still going on for this project and thus, nothing much on front of project, timelines for COD, estimated Capex and funding of the same is finalized.
As on Feb 29, 2020, GEPL holds only 30 acres of land in Telangana (purchased for Rs. 12 crore) and no other operations are going on in the company. It is estimated that the company would be operational after 2 years. Further, estimated cost of the project is Rs. 150 crore which is expected to be funded in debt-equity ratio of 1:1.

Volatility in product 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 the 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 in the country are expected to have a positive impact on the industry and would augur well for GEL. Moreover, globally many countries such as Korea, Thailand, Taiwan, US, EU, UK have taken steps to ban plastic items or to increase recycled plastic.
Further, many global brands are increasing commitment towards recycled products such as Nike (80% of products to contain recycled material by 2020), Adidas (100% recycled polyester use in all products by 2024), H&M (~26% of offerings produced from sustainable materials) etc.

Liquidity analysis: Strong

The liquidity of the company as marked by current ratio of 2.64x as on Mar 31, 2019 (PY: 1.15x). The working capital cycle improved from 77 days in FY18 to 72 days in FY19 mainly on account of reduction in inventory days. Also, average working capital utilization remained 6.1% for the 12 months ended Dec 2019. Further, free cash & bank balance including current investments improved from Rs. 53.42 crore as on Mar 31, 2019 to Rs. 141.20 crore as on Dec 31, 2019.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook to credit ratings
CARE's policy on Default recognition
CARE's criteria on Short term ratings
Rating Methodology for Manmade Yarn Manufacturing Sector
CARE's methodology for manufacturing companies
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, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	757	1,027
PBILDT	90	139
PAT	35	62
Overall gearing (times)	0.80	0.26
Interest coverage (times)	6.06	13.27

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

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	-	-	01.10.2026*	122.90	CARE A; Stable
Non-fund-based-Short Term	-	-	-	23.50	CARE A1

*Multiple maturity dates, the given date is for the first maturing term loan.

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	125.00	CARE A; Stable	-	1)CARE A; Stable (29-Jan-19) 2)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)
2.	Term Loan-Long Term	LT	122.90	CARE A; Stable	-	1)CARE A; Stable (29-Jan-19) 2)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)
3.	Non-fund-based-Short Term	ST	23.50	CARE A1	-	1)CARE A1 (29-Jan-19) 2)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)

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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