

Ganesha Ecosphere

Rs 568
Waste to wealth

Sensex: 49,591

Nifty: 14,835

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST (NET)	PBDT	DEP.	PBT	TAX	PAT	EPS (Rs)*
1803 (12)&	753.75	11.4	86.14	3	89.14	14.57	74.57	20.48	54.09	18.86	35.23	16.1
1903 (12)	1020.49	12.5	127.37	6.19	133.56	10.49	123.07	25.8	97.27	35.32	61.95	28.4
2003 (12)	888.83	12.6	111.7	7.4	119.1	7.77	111.33	28.05	83.27	19.59	63.68	29.2
2103(12P)	733.82	11.1	81.54	10.5	92.04	8.28	83.76	27.65	56.11	15.15	40.96	18.8
2203(12P)	917.28	13.5	123.83	11.44	135.28	9.19	126.09	30.97	95.12	25.68	69.44	31.8

* On current equity of Rs 21.83 crore; Face value Rs 10 each. (P): Projections. & Standalone Results
Source: Capitaline Database

Ganesha Ecosphere (GEL), is a leading PET bottle recycling company in India and primarily engaged in manufacturing of recycled polyester staple fibre (RPSF), recycled polyester spun yarn (RPSY) and dyed texturized yarn by recycling PET bottles.

The company currently have three latest manufacturing facilities at Bilaspur and Kanpur both in UP and Rudrapur in Uttarakhand with a cumulative capacity of 118800 tpa (108,600 tpa of RPSF and 7200 tpa of RPSY and 3000 tpa of dyed and texturised/ twisted filament yarn) of RPSF and yarn.

Incorporated in October 1987 as Ganesh Polytex by Mr. Shyam S. Sharma, a first-generation entrepreneur has commenced its commercial production in FY90 with dyeing of polyester filament yarn at its manufacturing unit in Kanpur with an installed capacity of 360 tpa (tonne per annum) and 1,800 spindles to produce dyed and fancy/double yarn respectively. The company was renamed to Ganesh Ecosphere in Oct 2011. Over the years, the company has emerged as one of the leading manufacturers of in India. The company has pioneered the manufacture of RPSF and RPSY from pre and post-consumer PET bottle scrap.

Market leader in India for recycled polyester fibre driven by wide product basket

Currently the company have a strong diversified product portfolio which is well distributed across yarn spinning, technical and non-woven textile and filling applications. The company products find application in the manufacture of textiles (T-Shirts, body warmers etc.), functional textiles (non-woven air filter fabric, geo textiles, carpets, car upholstery) and fillings (for pillows, duvets, toys).

The company has an enriched product basket with over 500 product variants to cater to all the possible applications. Constant research and development is its strength.

Over the years, GEL has developed strong relationship with customers both in domestic and overseas market. It have pan India presence with over 300 customers.

The company is exporting nearly 7% 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.

GEL is market leaders in recycled polyester fibre segment and is controlling around 15% of Indian market share.



STOCK DATA

BSE Code	:	514167
BSE Group	:	B
NSE Code	:	GANECOS
Bloomberg	:	GNPL .IN
Reuters	:	GANS.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 687 / Rs 153
Sector	:	Textiles

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	: 0.31
Institutions	: 14.84
Govt Holding	: 0.00
Corporate Holding	: 20.24
Promoters	: 42.05
Public & Others	: 22.56

* as on 31/12/2020

Source: Capitaline Databases

Integrated operation with capacity from fibre and yarn

With a total installed capacity of 108,600 tpa, GEL continues to be one of the largest RPSF players in India with sizable market share. It also has yarn capacity of 10,200 tpa as on December 31, 2020. 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

Efficient raw material procurement arrangement

The company recycles discarded PET bottles into user friendly polyester staple fibre and polyester spun yarn having versatile applications. The company uses mechanical recycling process, a successful technology compared to chemical recycling which is high in cost wise and thus not successful worldwide.

To source raw material (Pet bottle waste) it has developed a network of scrap dealers and contractors who in turn work through rag pickers for supplying the PET waste to the company. Contractors also supply directly from various cities. In addition to that the company sources raw material through a pan Indian network of more than 20 collection centers. These collection centers are franchisee-driven. PET waste are being crushed and baled at collection centers and sent to factories for further processing.

GEL processed 6.51 billion PET bottles in FY20 compared to 6.45 billion in FY19. GEL has established strong relations and collection network across the country based on which the company mobilizes around 350 tonnes of PET waste every day. GEL mainly procures its raw material (around 80% of the required raw material) from vendors/scrap dealers across India and has more than 20 collection centers. The company has diversified vendor/supplier profile with top five suppliers contributing 16%-22% of total purchases over past three years

Going forward, the company is set to improve the performance further on the back of the following factors

Marketing units and R&D team is vigorously working on product development and innovation for increasing product portfolio and better pricing power.

The company is constantly working on quality improvement and industry is also maturing. Discounts of recycled fibre over virgin fibre are continuously narrowing down. The company is also working on operational cost optimization. It is working on every component especially on power which is the largest component in manufacturing cost. The company has commissioned roof top solar installations of 1.8 megawatt in Kanpur unit during December 2020 quarter and installation of another 2.3 megawatt capacity are underway taking the total solar power installation to 9.0 megawatts

The company sees strong demand in use of recycled stuff be it in packaging or in clothing. All the big brands are having their targets for shifting the virgin stuff with recycled stuff and are paying hefty premium for it. However, there are supply side constraints in recycling industry because of low rate of scrap/waste collection, availability of technology, required quality and product

Ganesha Ecosphere has pioneered the manufacture of RPSF and RPSY from pre and post-consumer PET bottle scrap.

The company products find application in the manufacture of textiles (T-Shirts, body warmers etc.), functional textiles (non-woven air filter fabric, geo textiles, carpets, car upholstery) and fillings (for pillows, duvets, toys)

development.

Contribution to sales from new Warangal plant to start from FY23 onwards

The company is putting up the additional recycling capacity of 53,000 tonne at Warangal in Telangana with estimated project investment of Rs 400 crore where it is going to manufacture recycled filament yarn and recycled bottle grade chips, apart from recycled polyester fibre. It would be having 44% capacity for the fibre, 27% for the filament yarn and 27% for the chip. This capacity is expected to be operational by Q4FY22. The plant is expected to reach optimum capacity utilization by Q2FY23. On full capacity utilization the Warangal plant will bring in an additional revenue of Rs 500 crore with and blended EBITDA margin of about 25%. Moreover the new plant will also considerably save the logistics cost as the PET scrap procured in south and west has to be processed in the northern plants of the company currently.

The company is under process of acquiring a pet bottle scrap washing plant in Nepal where it will be manufacturing fibre / filament grade chips from pet scrap. The estimated project cost is Rs 40 crore and project would be operational by the end of Q1FY22.

Specialty fibre products developed by the company to fetch higher margins

The company is working on development of certain specialty fibres. It is like flame retardant fibre, antibacterial fibres and biodegradable fibres. All these fibres are specialty fibres and are being introduced for the first time in India in the recycled fibre segment. All these specialty fibre products, being developed by the company, will fetch up around 35% to 40% extra margins.

This flame-retardant fibre finds its application in certain critical applications where the fire hazard is more and the antibacterial fibres it can kill 99.99% bacteria on the fabrics and the biodegradable fibre has been introduced just now. It is fully capable to biodegrade under landfill and ocean in one year and the soil left behind from the degradation will contain no plastics and it will remain perfectly fertile.

The company is also going to introduce another sort of the specialty fibres which will find its application in cement and paper industries. It has also executed certain orders in the European markets and in the Indian markets and the customers are evaluating products.

Further, the company has also sent all these samples in European labs for testing so that it can have international acceptance and acquisition. It is also working on introducing recycled footprints in its products. This could be traceable until the end application of its products. Secondly, it will give it edge in the market.

Growth in apparels and home textile segments and Govt's initiatives towards a stronger plastic waste management augurs well for GEL

India is on the global radar for the textile, and apparel sector supported by its increasing population, income levels, growing market penetration of more players and the rapid urbanization of smaller towns. The market is projected to reach US\$ 225.7 billion by 2024, growing at a CAGR of 14.2% during 2019-2024. India's textile and apparel exports are expected to touch US\$ 300 billion by 2024-25, resulting in a tripling of the country's market share globally from 5% to 15%, according to Invest India, the national investment promotion and facilitation agency.

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

All the big brands are having their targets for shifting the virgin stuff with recycled stuff and are paying hefty premium for it

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.

Strong comeback in Q3FY21 performance

Ganesha Ecosphere net sales increased 13% to Rs 234.54 crore in Q3FY21 compared to Q3FY20. The company achieved production volume of 31,099 tonne which is almost 104% of capacity utilization. Average sale price improved during the quarter by about 11% from its lows during this year. Price appreciation has reached at pre-COVID level.

Operating profit margin has slumped from 14.6% to 13.6%, leading to 5% decline in operating profit to Rs 31.95 crore. Raw material cost as a % of total sales (net of stock adjustments) increased from 60.61% to 60.81%. Purchase of finished goods cost rose from 1.25% to 2.23%. Employee cost decreased from 6.15% to 5.82%. Other expenses fell from 18.60% to 17.33%. Other income rose 29.39% to Rs 3.61 crore. Provision for interest fell 6% to Rs 2.36 crore. Provision for depreciation fell 3% to Rs 6.84 crore. Profit before tax grew 12% to Rs 26.36 crore. Provision for tax was expense of Rs 6.26 crore, compared to Rs 7.89 crore. Effective tax rate was 23.75% compared to 33.50%. Net profit attributable to owners of the company increased 28% to Rs 20.10 crore. Promoters' stake was 42.05% as of 31 December 2020, compared to 40.13% as of 31 December 2019.

Net sales declined 27% in 9MFY21 to Rs 501.9 crore. Operating profit margin has slumped from 13.6% to 10.2%, leading to 45% decline in operating profit to Rs 51.39 crore. Raw material cost as a % of total sales (net of stock adjustments) increased from 60.17% to 61.43%. Purchase of finished goods cost rose from 1.65% to 2.13%. Employee cost increased from 6.53% to 6.59%. Other expenses rose from 18.45% to 19.60%. Other income rose 46.55% to Rs 8.91 crore. Provision for interest rose 7% to Rs 6.5 crore. Provision for depreciation fell 5% to Rs 20.05 crore. Profit before tax shrink 54% to Rs 33.75 crore. Provision for tax was expense of Rs 8.03 crore compared to Rs 25.16 crore. Effective tax rate was 23.79% compared to 34.61%. Net profit attributable to owners of the company decreased 46% to Rs 25.72 crore.

Outlook

World over there is a strong demand is generating for use of recycled stuff be it in packaging or in clothing. All the big brands are having their targets for shifting the virgin stuff with recycled stuff and are paying hefty premium for it. However, there are supply side constraints in recycling industry because of low rate of scrap/ waste collection, availability of technology, required quality and product

On full capacity utilization the Warangal plant will bring in an additional revenue of Rs 500 crore with and blended EBITDA margin of about 25%

Specialty fibre products, being developed by the company, will fetch up around 35% to 40% extra margins

development. Given this market condition, with the company ramp up capacity by about 50%, is expected to capitalize on it.

Further, Gol'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.

The company's efforts to drive down costs of existing plants, increased contribution from value added high margin products is expected to improve the margin going forward. The company is targeting to increase EBITDA margins to 15% over next one or two years' time.

The company targets to accelerate the growth momentum for next decade to surpass CAGR growth in top line (12%) and bottom Line (13%) achieved during last one decade.

Valuation

In FY 2021 we expect the company to register sales and net profit of Rs 733.82 crore and Rs 40.96 crore respectively. The sales and net profit is expected to increase to Rs 917.28 crore and Rs 69.44 crore in FY2022. EPS works out to Rs 31.8 for FY2022. The scrip trades at Rs 568. P/E on FY 2022 projected EPS works out to 18 times.

Gol'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

GANESHA ECOSPHERE : CONSOLIDATED RESULT									
PARTICULARS	2012 (3)	1912 (3)	VAR. (%)	2012 (9)	1912 (9)	VAR. (%)	2003 (12)	1903 (12)	VAR. (%)
Sales	234.54	208.17	13	501.90	687.16	-27	888.83	1020.49	-13
OPM (%)	13.6	14.6		10.2	13.6		12.6	12.5	
OP	31.94	30.32	5	51.39	93.73	-45	111.70	127.37	-12
Other inc.	3.61	2.79	30	8.91	6.08	47	7.40	6.19	20
PBIDT	35.55	33.10	7	60.30	99.80	-40	119.10	133.56	-11
Interest	2.36	2.51	-6	6.50	6.10	7	7.77	10.49	-26
PBDT	33.19	30.59	9	53.80	93.71	-43	111.33	123.07	-10
Dep.	6.84	7.05	-3	20.05	21.02	-5	28.05	25.80	9
PBT before EO	26.36	23.54	12	33.75	72.69	-54	83.27	97.27	-14
Total Tax	6.26	7.89	-21	8.03	25.16	-68	19.59	35.32	-45
PAT	20.10	15.66	28	25.72	47.53	-46	63.68	61.95	3
EPS (Rs) *	#	#		#	#		29.2	28.4	

* On current equity of Rs 21.83 crore; Face value Rs 10 each. #EPS cannot be annualized due to seasonality in business.
 Var (%) exceeding 999 is restricted to 999. Figures in Rs crore, PL: Profit to Loss, LP: Loss to Profit
 Source: Capitaline Database