Ganesha Ecosphere Ltd (GNPL IN)

Green and Safe

INDIA | Textile | Company Update

2 March 2015

Transforming waste into value
Ganesha Ecosphere (GEL) is engaged in processing PET (Polyethylene Terephalate) waste (mainly bottles) into recycled Polyester Staple Fibre (PSF) and Yarn. It has over 12 years of experience in waste recycling and is largest player with production capacity of 87,600 mtpa, translating into attractive economies of scale. There is a large domestic as well as overseas market for Polyester Staple Fibre and Yarn as it finds applications in technical textiles, non woven textiles, stuffing in comfortable and lifecycle products and yarn spinning.

Increasing PET consumption and growing acceptance of recycled products
GEL is advantageously positioned to capitalize on fast growing PET bottle segment. The increase in disposable income with lifestyle changes supporting high growth for PET bottle. India's PET resign demand is around 0.5mtpa (per capita consumption of 0.4 kg compared to global average of 2.1 kg) and is growing at around 7.5% pa. India doesn't have the capacity to recycle the entire available waste and the second largest player is Reliance with ~42,000 tpa capacity mainly for captive consumption of polyester waste. The rising consumption of PET provides opportunities with government's push for "Swachh Bharat". The company has strong network of 25 collection centers for PET waste sourcing. The company procures 50% of raw material from scrap aggregators and remaining through PET dealers. It also imports waste bottles from Middle East, Africa.

Strong positioning in regenerated Polyester fibre
The company commissioned PET recycled capacity in 1995 with attractive capital cost and has advantage of wide product portfolio particularly in dyed fibers which is mainly supplied by unorganized players. The early entrance in low penetrated market has helped company to grow aggressively and capture value chain. GEL increased its PSF capacity by 121% from 39,600 mtpa in FY09 to 87,600 mtpa in 9MFY15. It has setup Greenfield capacity of 25,920 spindles to manufacture spun yarn to make value addition over PSF. The commissioning of 21,000mtpa capacity in 3QFY15 with capital expenditure of Rs1bn should add revenue of `Rs 2bn (assuming asset turn of 2x) going ahead. The new capacity has modern technology and is expected to get better realization as quality is in par with virgin polyester.

Significant margin protection despite crude price volatility
The company has advantage over virgin fiber manufacturers in term of raw material price volatility. The raw material price for virgin fibre is linked to the crude oil price movement, unlike waste PET, which is priced lower. The company is able to negotiate waste price with intermediaries who derive material from rag picker based on finished product realization. The company benefit from higher crude price, however value chain is substantial in raw material sourcing with four to six layers. The company is able to absorb the lower crude price and maintain EBITDA margins in range of 10-11%.

Attractive return ratios with growth opportunities
The raw material sourcing competitiveness and economies of scale has helped the company to capture market share. The company has grown with a CAGR in revenues of 30% to Rs 5bn over FY09-FY14 creating niche for itself. The focus on value added products and technology to improve realization should support margins for the company. The capital employed has increased from Rs940mn in FY09 to Rs 3.36bn in FY14, with average RoCE of 15% and RoE of 23% in past six years. GEL has maintained growth with prudent working capital management and net working capital remained in range of 8-10% of sales (~30 days) for FY09-14.

Valuations
At CMP of Rs 162, it is treading at 9.4x FT14 earnings and P/BV of 2x. On EV/EBITDA it is trading at 8.2xFY14.

Not Rated
CMP Rs 162

COMPANY DATA

O/S SHARES (MN) :	15
MARKET CAP (RSBN) :	2
MARKET CAP (USDMN) :	39
52 - WK HI/LO (RS) :	189 / 31
LIQUIDITY 3M (USDMN) :	0.1
PAR VALUE (RS) :	10

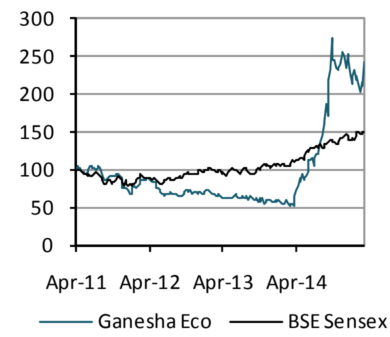
SHARE HOLDING PATTERN, %

PROMOTERS :	56.7
FII / NRI :	0.5
FI / MF :	0.0
NON PROMOTER CORP. HOLDINGS :	11.8
PUBLIC & OTHERS :	31.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	16.3	9.2	348.4
REL TO BSE	15.2	5.6	308.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY12	FY13	FY14
Net Sales	3855	4353	4995
EBIDTA	417	471	547
Net Profit	207	241	261
EPS, Rs	13.6	15.9	17.2
PER, x	11.9	10.2	9.4
EV/EBIDTA, x	7.8	8.7	8.2
P/BV, x	2.9	2.4	2.0
ROE, %	24.6	23.8	21.2
Debt/Equity (%)	0.9	1.6	1.7

Source: PhillipCapital India Research Est.

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Company Background

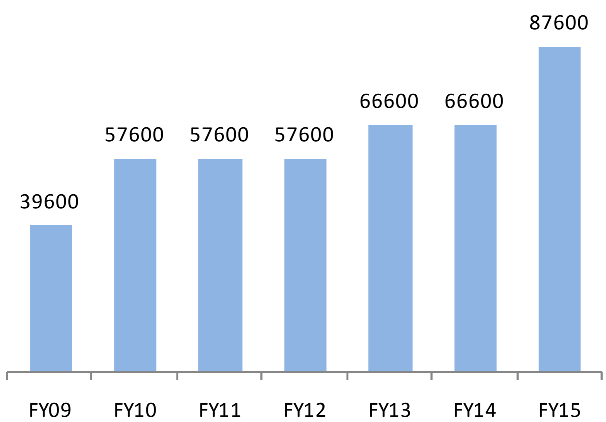
Ganesha Ecosphere (GEL), formerly Ganesh Polytex, is India's largest waste recycling company. It is primarily engaged in the recycling of Polyethylene Terephthalate (PET) bottles to produce Regenerated Polyester Staple Fiber (RPSF). The company recycles more than 2.5 billion bottles annually and is one of the leading environmental friendly companies in India. The company was incorporated in 1988 to produce synthetic yarn at Kanpur, Uttar Pradesh, India. It diversified into the manufacture of producing RPSF from PET bottles and plastic waste in 1995. The manufacturing plants are located at Kanpur and Rudrapur (Uttarakhand, India). There is a significantly large domestic as well as overseas market for Regenerated Polyester Staple Fibre as it finds applications in the numerous areas ranging from technical textiles, non woven textiles, stuffing in comfortable and lifecycle products and yarn spinning.

PSF uses in different segment

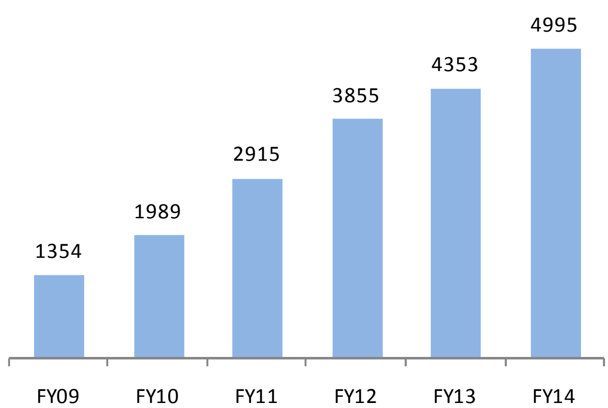
Strong positioning in regenerated Polyester fibre

The company commissioned PET recycled capacity in 1995 with attractive capital cost and has advantage of wide product portfolio particularly in dyed fibers which is mainly supplied by unorganized players. The early entrance in low penetrated market has helped company to grow aggressively and capture value chain. It has setup Greenfield capacity of 25920 spindles to manufacture spun yarn to make value addition over PSF. GEL increased its PSF capacity by 121% from 39,600 mtpa in FY09 to 87,600 mtpa in 9MFY15.

Capacity addition to derive growth (mtpa)



Revenue CAGR of 30% over FY09-14 (Rs mn)



Source: Company, PhillipCapital India Research

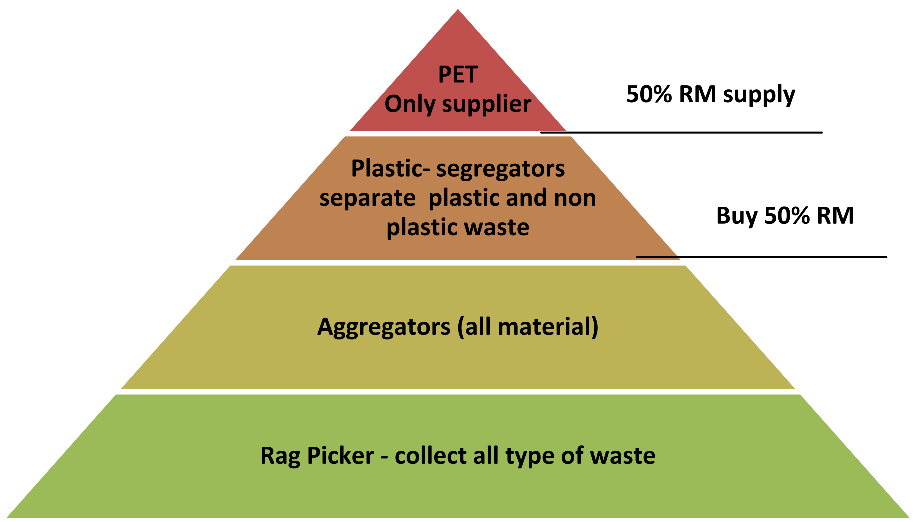
The recent commissioning of 21,000mtpa capacity in 3QFY15 with capital expenditure of Rs1bn should add revenue of `Rs 2bn (assuming asset turn of 2x). The new capacity has modern technology and is expected to get better realization as quality is in par with virgin polyester.

Increasing PET consumption and growing acceptance of recycled products

PET is one of the fastest growing segments in plastics providing a hygienic, food grade, durable and user friendly packaging solution for all kind of bottled drinks, beverages, pharmaceuticals, liquor, chemicals, and other liquid products. PET bottle waste is non bio-degradable in nature and hence, poses a threat to soil, water sources. The recycling of PET bottle waste is promoted in EU, Japan and China and expected to follow by other countries to save the landfill space and avoid littering. India's PET resign demand is around 0.5mtpa (per capita consumption of 0.4 kg compared to global average of 2.1 kg) and is growing at around 7.5%. This headroom and market size is helping create an attractive industry opportunity. There is also a growing optimism due to the increasing use of recycled polyester fibre by several global brands derived from growing environment responsibility

The Company sources raw material from over 25 pan-Indian waste collection centers and 6 marketing offices pan-India on the other. GEL procures 50% of raw material from aggregators and remaining through dealers with north region accounting around 60% while south is 40%. It also imports waste bottles from Middle East, Africa.

Raw material sourcing chain – flexibility in absorbing crude volatility



Significant margin protection despite crude price volatility

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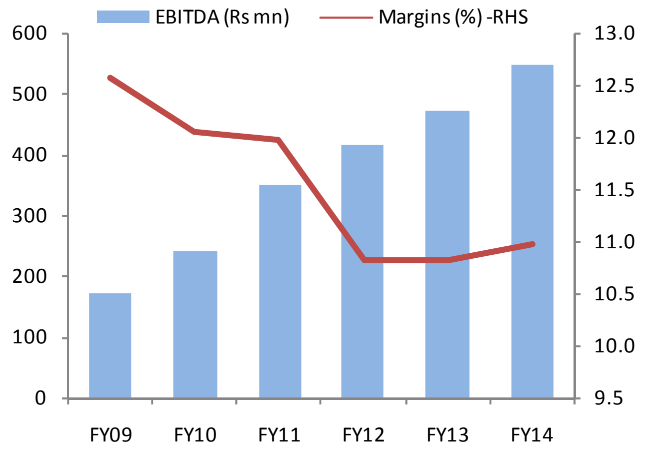
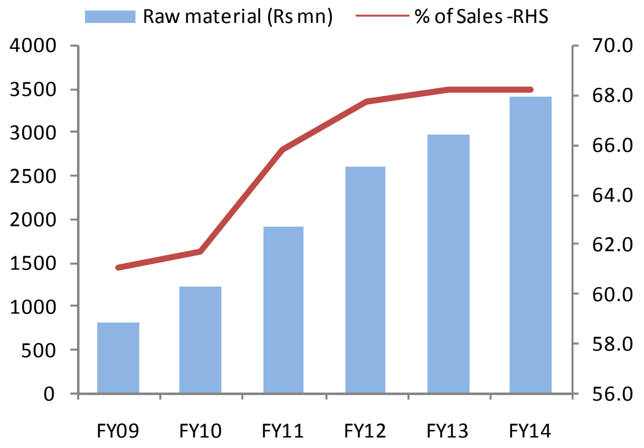
EBITDA and Margin trend, resilience with crude volatility



Raw material cost trend

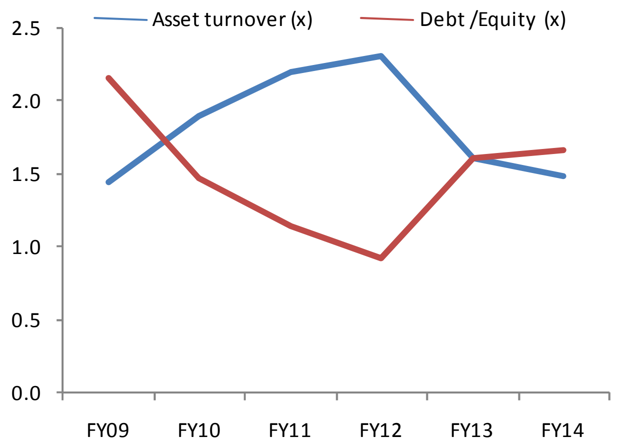


Source: Company, PhillipCapital India Research

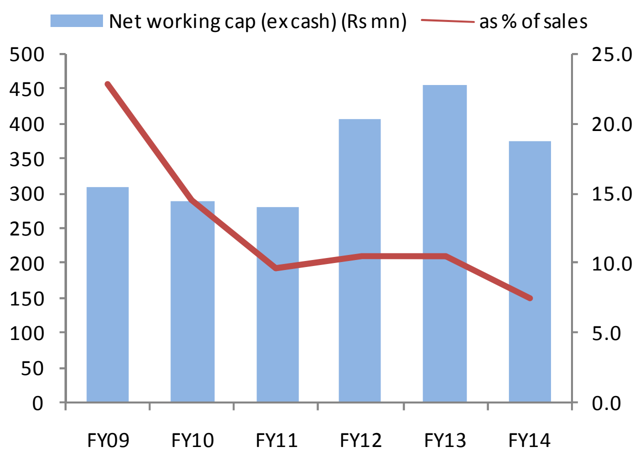
Attractive return ratios with growth opportunities

The company has grown with a CAGR in revenues of 30% to Rs 5bn over FY09-FY14 creating niche for itself. The focus on value added products and technology to improve realization should support margins for the company. The raw material competitiveness and economies of scale has helped the company to capture market share. The capital employed has increased from Rs940mn in FY09 to Rs 3.36bn in FY14, with average RoCE of 15% and RoE of 23% in past six years. GEL has maintained growth with prudent working capital management and net working capital in range of 8-10% of sales (~30 days).

Attractive asset turnover and healthy leverage despite strong growth



Net working capital trend



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY11	FY12	FY13	FY14
Sale of Products	**2938**	**3889**	**4354**	**5000**
Other Operating Revenue	2	3	2	7
Total Revenue	2940	3892	4356	5007
Less: Excise duty	25	37	3	12
Net Income	**2915**	**3855**	**4353**	**4995**
RM consumed	1958	2718	2839	3301
Purchase of Stock in trade	26	8	45	163
Stock adjustments	-65	-115	85	-58
Total RM	1919	2611	2969	3406
% of Sales	65.8%	67.7%	68.2%	68.2%
Employee Cost	114	166	199	248
Other Expenditure	533	661	714	794
Total Expenditure	**2566**	**3438**	**3882**	**4447**
EBITDA	**349**	**417**	**471**	**547**
EBITDA margins (%)	12.0%	10.8%	10.8%	11.0%
Depreciation	89.0	109.9	114.6	125.6
EBIT	**259.9**	**307.0**	**356.5**	**421.8**
Interest	74.1	110.3	102.6	158.6
Other Income	14.7	17.0	10.7	15.5
PBT	**200.5**	**213.7**	**264.7**	**278.8**
Tax	20.4	6.7	23.5	17.7
% of tax	10.2%	3.1%	8.9%	6.4%
Current	41.9	42.8	53.0	55.2
Deferred	0.3	6.7	-0.4	15.6
Other adjustments	-21.9	-42.8	-29.1	-53.0
PAT	**180.1**	**207.0**	**241.2**	**261.1**
margins	6.2%	5.4%	5.5%	5.2%
Extraordinary	0.0	0.0	0.0	-15.6
PAT- Reported	**180.1**	**207.0**	**241.2**	**245.4**

Balance Sheet

Y/E Mar, Rs mn	FY11	FY12	FY13	FY14
No of shares	15.18	15.18	15.18	15.18
FV	10	10	10	10
Share Capital	182	197	157	152
Reserve & Surplus	404	643	857	1080
Shareholders fund	586	840	1014	1232
Money received against warrants	27	0	0	16
Long term Loan	384	360	1068	1251
Other Long Term Loan	2	4	30	35
ST borrowings	284	414	538	765
Total	670	778	1636	2051
Deferred Tax	44	50	50	66
Total Capital Employed	**1326**	**1668**	**2700**	**3365**
Gross Fixed Assets	1304	1524	1610	2727
Depreciation	307	385	582	703
Tangible Assets	916	1028	1028	2024
Intangible Assets	1	1	2	2
CWIP	13	52	848	596
Investments	38	79	109	173
Current Assets	719	1007	1229	1316
Inventories	326	473	391	607
Trade Receivables	254	311	344	392
Cash	77	102	256	193
Loans and Advance	35	80	173	78
Other Current asset	28	41	66	45
Current Liabilities	362	498	516	746
Trade Payable	76	155	152	282
Other current liabilities	221	277	317	416
Provisions	66	66	47	49
Net Working liability	357	508	714	570
Capital Employed	**1326**	**1668**	**2700**	**3365**

Source: Company, PhillipCapital India Research Estimates

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