



## Expansion Spree; GM Impact, but Capex Boosts Outlook

November 14, 2024

Ganesh Ecosphere Ltd (GEL) saw a revenue growth of 39% YoY on back of 23% volume growth majorly driven by rPET from Warangal. Consolidated gross margins came in at 36.8%, contraction of ~200 bps qoq on raw material pressure (QoQ is a better indicator than YoY since the base year lacks Warangal operations). EBITDA margins remained flat qoq around 14.3% despite lower gross margins. Management is tackling overcapacity and cheap fabric imports by focusing on exports, diversifying into non-woven textiles, and shifting to value-added products. GEL has further announced a phase I capex plan of Rs.4.5-5bn with 45k tons additional capacity as Orissa. GEL expects this plant to be operational by Mar'26 & potential asset t/o of 1.25x on peak capacity utilization. Race Eco JV aims to secure raw materials via small wash lines across India, with the first plant in Chennai set to be operational within a year. For FY25, Ganesh Ecosphere targets revenue of Rs. 15-16 bn with an EBITDA margin of ~14.5-15%, aiming for long-term margins of ~16-17% and ~25-30% revenue growth over the next few years. Capacity utilization reached 106% in the standalone business, 58% at the Warangal plant, and over 72% in the rPET segment.

### Key financial highlights

- Revenues at ₹3869Mn, 39%YoY/15%QoQ
- EBITDA (Excl OI) at ₹553Mn, 118.4%YoY/16%QoQ
- PAT at ₹272Mn, 869.7%YoY/20.3%QoQ
- Gross Margin came in at 36.8% vs 35.4% YoY/38.9% QoQ
- Gross Margin saw improvement of 145 bps on YoY basis
- EBITDA Margin (Excl OI) came in at 14.3% vs 9.1% YoY/14.2% QoQ
- EBITDA Margin (Excl OI) saw improvement of 520 bps on YoY basis

### Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net sales	7,511	10,214	11,796	11,229	15,643	18,951	22,676
EBIDTA	845	1,139	1,277	1,378	2,352	3,101	4,021
Margins	11.2	11.2	10.8	12.3	15.0	16.4	17.7
PAT (adj)	435	619	699	406	1,233	1,644	2,173
Growth (%)	-31.7	42.4	12.9	-41.9	203.9	33.3	32.2
EPS	19.91	28.35	32.01	16.01	47.00	60.16	79.54
P/E (x)	117	82	73	146	50	39	29
P/B (x)	10	9	8	6	5	5	4
EV/EBITDA (x)	61	47	43	44	27	22	17
RoE (%)	9	11	12	5	11	12	14
ROCE (%)	11	12	11	8	12	13	15
RoIC (%)	9	8	8	6	11	11	12

Source : Company, Dalal & Broacha Research

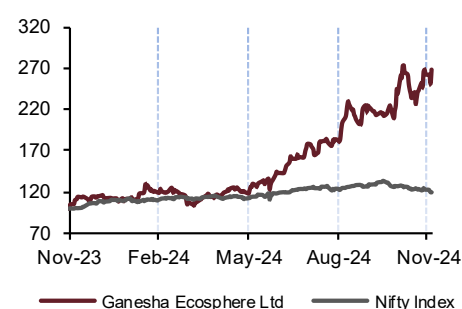
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>2,386</b>	<b>2</b>

### Market Data

Current price	Rs	2,340
Market Cap (Rs.Bn)	(Rs Bn)	59
Market Cap (US \$ Mn)	(US \$ Mn)	703
Face Value	Rs	10
52 Weeks High/Low	Rs	2,438 / 852
Average Daily Volume	('000)	119
BSE Code		514167
Bloomberg		GNPL.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	35.86	36.44
Public	63.98	63.40
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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**RM prices weigh heavy on overall Gross margins (36.8% in 2QFY25 vs 38.8% in 1QFY25)**

GEL faced challenges in passing on the increased **raw material costs**, particularly in the Recycled Polyester Staple Fiber (RPSF) segment. The company highlighted that it had difficulty in fully transferring these cost increases to customers due to market conditions. The pricing pressure was exacerbated by overcapacity in the RPSF market and competition from cheap fabric imports, which impacted on the company's ability to maintain margins. The company is focusing on improving its export business and shifting towards value-added products, especially in non-woven technical textiles, to mitigate the impact of raw material price fluctuations.

The **gross margin** at the subsidiary level dropped significantly by ~852 basis points on a qoq basis, despite having pricing power for 70% of its capacity. This decline was attributed to the lag in passing on raw material price increases, as prices are revised monthly. The company expects it will take 1-2 months to fully reflect these price increases in customer contracts, leading to a temporary dip in margins. Despite these challenges, GEL remains optimistic about maintaining and improving margins through strategic product mix adjustments and operational efficiencies.

**Capex of Rs.4.5-5bn to increase visibility for FY27e earnings**

GEL is planning a capex of Rs.4.5-5bn capex at Orissa. The plant will have a total installed capacity of 45,000 tons in the first phase. The Odisha plant will use advanced machinery that offers **16% lower power consumption** compared to the Warangal plant, contributing to operational efficiency. The company has already placed orders for machinery, which has a lead time of 12 to 15 months. The plant is expected to be operational by March 2026, with efforts being made to accelerate the project timeline. Odisha was chosen due to its strategic location, which allows Ganesha Ecosphere to optimize logistics for both raw material procurement and distribution of finished goods. Ganesha Ecosphere has sufficient internal accruals and liquidity to fund the Odisha expansion. The company does not plan to raise additional capital for this project

**Capacity utilization at 106%/58% for Standalone – Traditional business / Warangal plant – Value add business**

In 2QFY25, Ganesha Ecosphere achieved 106% capacity utilization in its standalone operations, demonstrating optimal use of production capabilities. The Warangal plant operated at 58% capacity, with a goal to reach 90% by March 2025 for both Recycled Polyester Staple Fiber (RPSF) and filament yarn production. In this quarter, ~70% of the Warangal plant's sales volume came from rPET chips, with the remaining 30% from fiber and yarn. The rPET segment saw capacity utilization exceed 72%, with plans to further increase utilization as demand rises.

**Valuation & Outlook**

**Ganesha Ecosphere Ltd (GEL)** is India's largest PET bottle recycler, shifting from textile recycling to producing rPET granules for the FMCG industry, in response to new EPR norms requiring mandatory recycled plastic content in packaging by FY26. GEL recycles over 6 billion PET bottles annually, capturing 16% of India's PET waste. Aiming for a 10-12% share of the rPET market by 2030, GEL looks to expand its capacity from 42,000 tonnes to 200,000-300,000 tonnes, aiming to capture 10-12%/30% market share of the rPET/rPET chips+flakes market. Recent expansion at Warangal plant is expected to drive revenue growth to Rs. 5-6 bn (+50%) and improve EBITDA margins from 11% to 17%. GEL's robust dealer network, spanning nearly 300 dealers, provides a strong procurement advantage. The company is also poised to benefit from the shift towards organized recycling, as stricter EPR norms formalize the market. GEL's long-standing industry presence and strategic expansions position it to lead India's plastic waste management revolution. With a robust succession plan and ongoing discussions with major bottling companies, GEL is set to lead the way in sustainable plastic packaging solutions. The company's move to high-entry barrier rPET products from low-entry barrier textiles marks a significant strategic shift.

The recent issuance of warrants to GEL promoters at Rs.1,035 per share in January 2024, amounting to Rs.1.5 billion, and the QIB issue of Rs.3.5 billion at Rs.995 per share in February 2024, demonstrate strong confidence in the company's growth trajectory.

We change our rating from **BUY to HOLD** due to recent run up in the stock & slow earnings catch up. We roll our estimates to FY27e earnings & increase the PE multiple from **25x to 30x (on account of increased earnings visibility for FY27e from Orissa capex)**.

**We expect robust revenue/EBITDA/PAT/EPS CAGR of 18%/33%/33%/26% over FY23-27e (with FY23 being a normalized year for CAGR purpose) & value the company at 30x (earlier 25x) FY27e EPS of ~Rs.80 arriving at target price of Rs.2,386. This is justified by evolving regulatory dynamics, which are expected to enhance earnings longevity, strengthen the raw material procurement moat, and leverage the high-entry barrier nature of the business. Additionally, the shift from the cyclical textile industry to an FMCG clientele, along with increased customer loyalty, all contribute to potential high earnings visibility.**

## Conference Concall KTAs

### Guidance

- For FY25, GEL expects revenue between Rs. 15–16 bn with an EBITDA margin of ~14.5–15%.
- Long-term EBITDA margins are projected at around 16–17%, with revenue growth of ~25–30% over the next few years.
- Expected quarterly revenue run rate: Rs.1.60–1.75 bn by 4QFY25 from Warangal operations.

### Capacity Utilisation

- **Standalone Business:** Achieved 106% capacity utilization.
- **Warangal Plant:** Operating at 58% capacity.
- **rPET Segment:** Capacity utilization exceeded 72%.

### Raw material & pricing

- GEL is facing pricing pressure in raw materials for RPSF but is working to pass on some of the cost increases to customers, especially through value-added products. There is a time lag of usually 1-2 quarters. Facing challenges due to overcapacity and cheap imports of fabrics, but the company has managed well by focusing on exports and diversifying into other verticals like non-woven textiles.

### Odisha Expansion plans

- Planned capacity addition of 45k tons with an investment of ~Rs.4.5bn under phase I (entire 45k to come onstream at one go). Expected to be operational by Mar'26.
- The Odisha plant will feature advanced machinery with lower power consumption (16% less than Warangal), contributing to better operational efficiency.

### Warangal Operations

- Sales volume breakup : 70% from rPET & 30% from fibre & yarn.
- Capacity utilization expected to ramp up to around 90% by Mar'25 for both RPSF and filament yarn.

### Joint venture with Race Eco chain

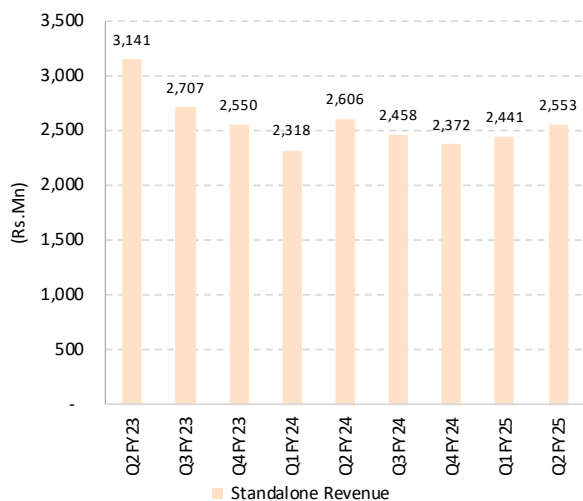
- The JV focuses on securing raw materials through smaller wash lines across India.
- The first plant is being set up in Chennai, expected to be operational within a year.

## Quarterly Financials

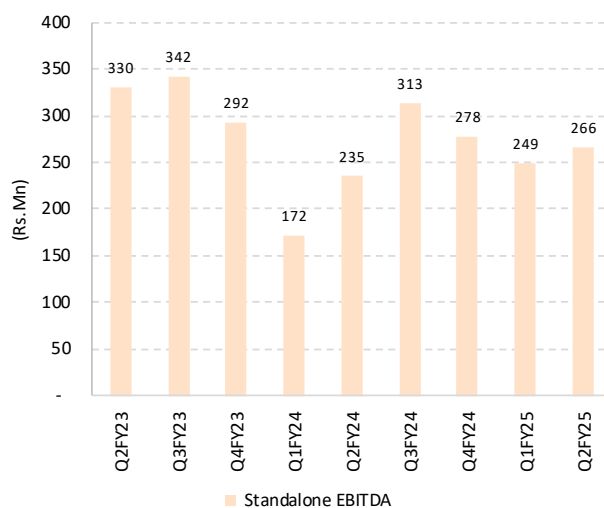
(Rs.Mn)	2QFY25A	2QFY24	YoY Growth (%)	1QFY25	QoQ Growth (%)
<b>Revenue from Operations</b>	<b>3,868</b>	<b>2,784</b>	<b>39%</b>	<b>3,365</b>	<b>15%</b>
Other Income	37	32	15%	42	-12%
Total RM Cost	2,445	1,800	36%	2,058	19%
Employee Benefits Expense	216	183	18%	208	4%
Other Expenses	654	548	19%	623	5%
Total Expenses	3,315	2,531	31%	2,889	15%
<b>EBITDA (Excluding Other Income)</b>	<b>553</b>	<b>253</b>	<b>118%</b>	<b>477</b>	<b>16%</b>
Depreciation and Amortisation Expenses	135	124	9%	134	1%
<b>EBIT / PBIT</b>	<b>455</b>	<b>161</b>	<b>182%</b>	<b>385</b>	<b>18%</b>
Finance Costs	96	116	-18%	83	15%
<b>EBT/ PBT</b>	<b>359</b>	<b>45</b>	<b>702%</b>	<b>302</b>	<b>19%</b>
Tax Expense	88	17	424%	76	16%
<b>Net Profit after Tax</b>	<b>271</b>	<b>28</b>	<b>870%</b>	<b>225</b>	<b>20%</b>
Adj Earning Per Share	10.70	1.28	735%	8.90	20%
<b>Margins (%)</b>			<b>(In bps)</b>		<b>(In bps)</b>
Gross Margins	36.8%	35.4%	144	38.8%	-205
EBITDA Margins (Excl Other Income)	14.3%	9.1%	520	14.2%	12
PAT Margins	6.9%	1.0%	595	6.6%	33
Tax Rate	24.5%	37.6%	-1303	25.2%	-67
<b>As a % to sales</b>					
RM as a % to sales	63.2%	64.6%		61.2%	
EE Cost as a % to sales	5.6%	6.6%		6.2%	
Other exps as a % to sales	16.9%	19.7%		18.5%	

Source: Dalal &amp; Broacha Research

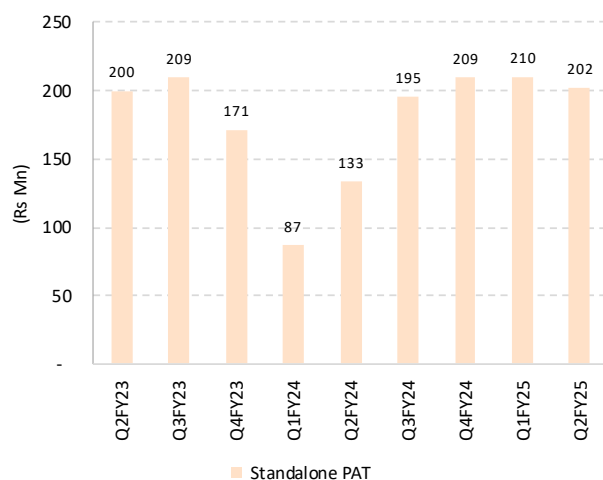
Standalone revenue



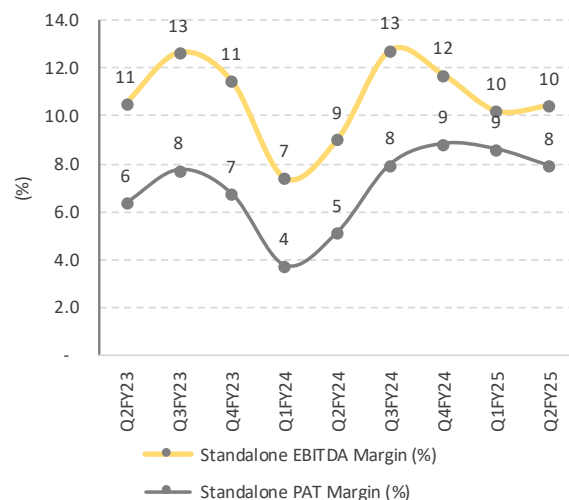
Standalone EBITDA



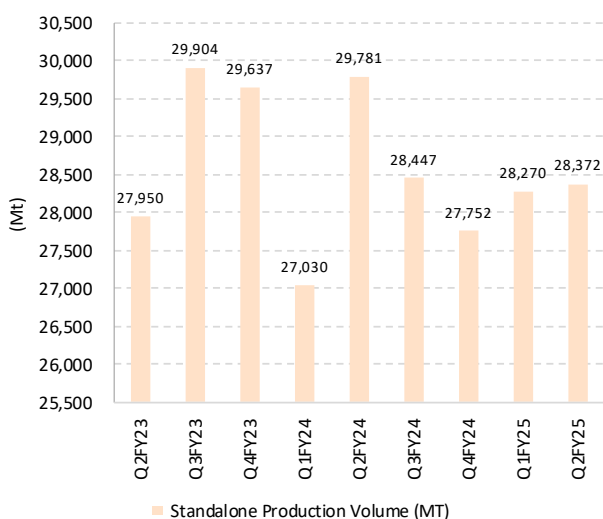
Standalone PAT



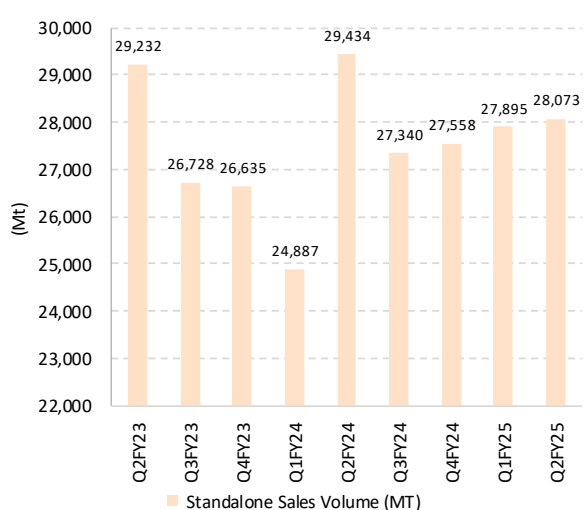
Standalone EBITDA & PAT Margin (%)



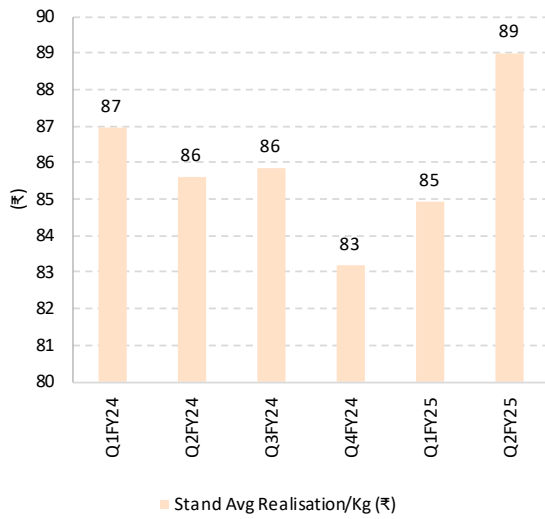
Standalone Production Volume (MT)



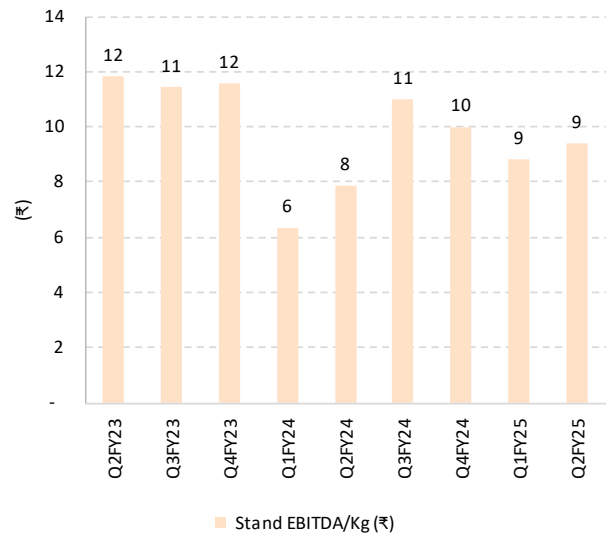
Standalone Sales Volume (MT)



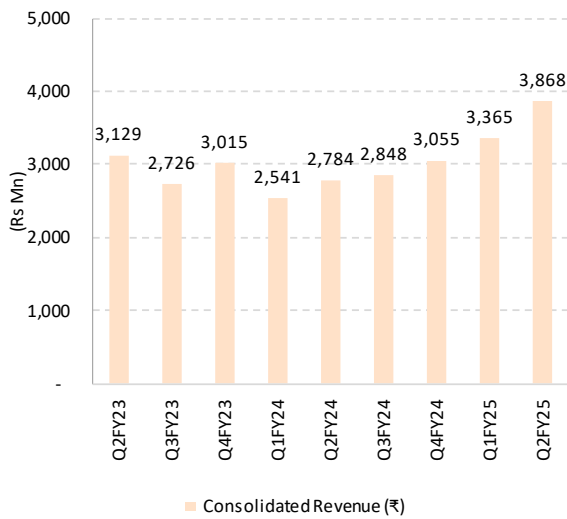
Standalone average realisation (Rs)



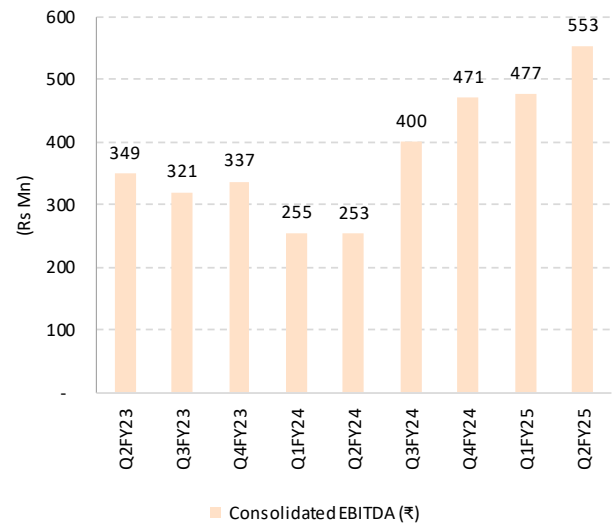
Standalone EBITDA/kg (Rs)



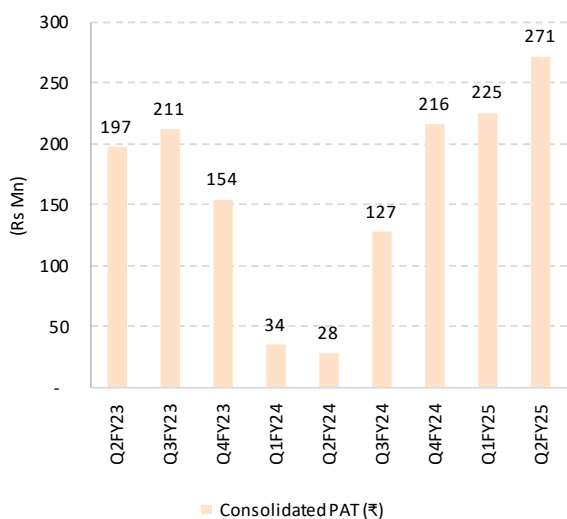
Consolidated Revenue (Rs)



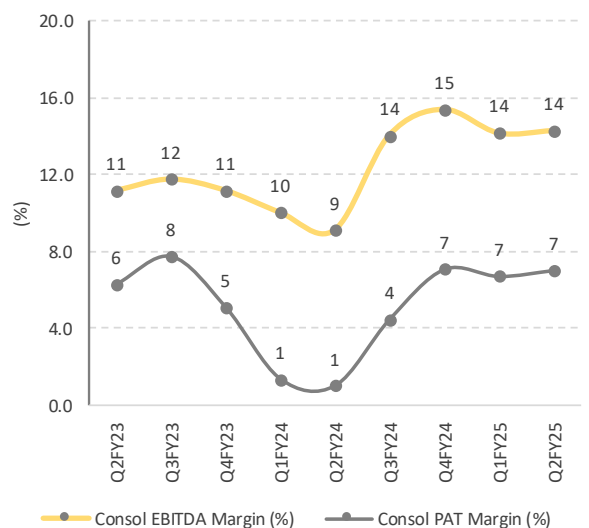
Consolidated EBITDA (Rs)



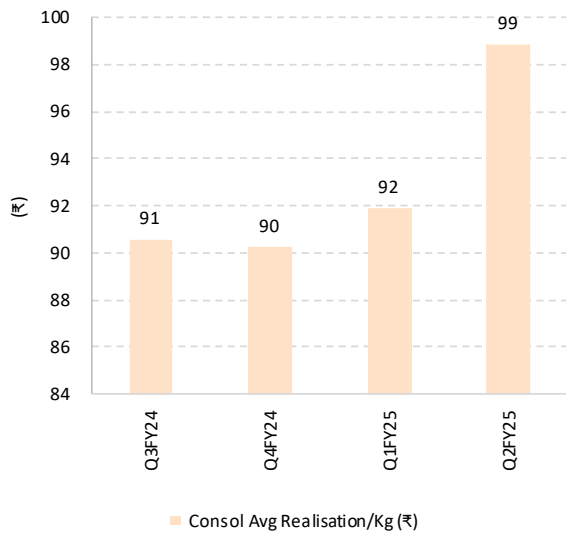
Consolidated PAT (Rs)



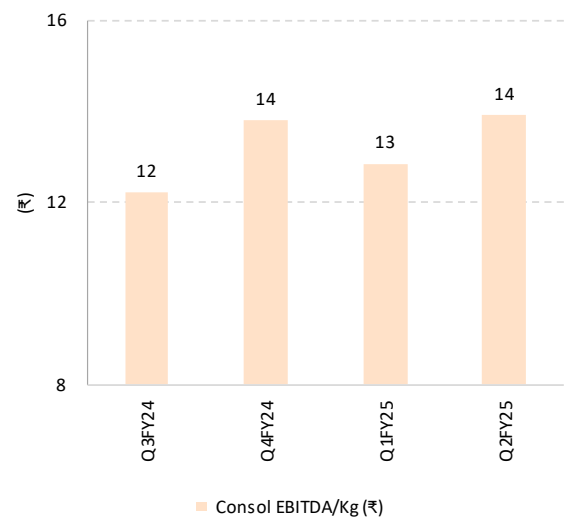
Consolidated EBITDA & PAT Margin (%)



**Consolidated average realisation (Rs)**



**Consolidated EBITDA/kg (Rs)**



Source: Dalal & Broacha Research, Company



## Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net Sales	7,511	10,214	11,796	11,229	15,643	18,951	22,676
Operating Expenses	-4,755	-6,572	-7,787	-6,909	-9,714	-11,636	-13,606
Employee Cost	-480	-579	-672	-750	-881	-989	-1,161
Other Expenses	-1,431	-1,924	-2,061	-2,191	-2,696	-3,225	-3,889
<b>Operating Profit</b>	<b>845</b>	<b>1,139</b>	<b>1,277</b>	<b>1,378</b>	<b>2,352</b>	<b>3,101</b>	<b>4,021</b>
Depreciation	-272	-284	-292	-487	-549	-659	-835
PBIT	573	855	985	891	1,803	2,442	3,185
Other income	94	69	134	146	146	146	146
Interest	-88	-98	-169	-449	-368	-508	-615
PBT	579	826	950	588	1,581	2,081	2,716
Profit before tax	579	826	950	588	1,581	2,081	2,716
Provision for tax	-145	-208	-251	-183	-348	-437	-543
Profit & Loss from	-	-	-	-	-	-	-
Reported PAT	435	619	699	406	1,233	1,644	2,173
MI	-	-	-	-	-	-	-
Owners PAT	435	619	699	406	1,233	1,644	2,173
<b>Adjusted Profit</b>	<b>435</b>	<b>619</b>	<b>699</b>	<b>406</b>	<b>1,233</b>	<b>1,644</b>	<b>2,173</b>

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Equity capital	218	218	218	253	262	273	273
Reserves	4,951	5,518	6,161	10,268	12,446	13,843	15,690
<b>Net worth</b>	<b>5,170</b>	<b>5,736</b>	<b>6,379</b>	<b>10,521</b>	<b>12,708</b>	<b>14,116</b>	<b>15,963</b>
MI	-	-	-	-	-	-	-
<b>Non Current Liabilities</b>	<b>614</b>	<b>2,762</b>	<b>3,524</b>	<b>4,160</b>	<b>4,122</b>	<b>6,126</b>	<b>6,129</b>
<b>Current Liabilities</b>	<b>1,689</b>	<b>2,449</b>	<b>3,324</b>	<b>1,564</b>	<b>2,664</b>	<b>2,623</b>	<b>2,989</b>
<b>TOTAL LIABILITIES</b>	<b>7,473</b>	<b>10,947</b>	<b>13,228</b>	<b>16,245</b>	<b>19,494</b>	<b>22,864</b>	<b>25,081</b>
<b>Non Current Assets</b>	<b>3,557</b>	<b>6,322</b>	<b>7,873</b>	<b>8,887</b>	<b>9,498</b>	<b>12,664</b>	<b>15,829</b>
Fixed Assets	3,277	5,755	7,473	8,406	8,857	12,198	15,363
Right of Use Assets	12	12	12	12	12	12	11
Financial Assets	-	-	59	59	220	44	44
Deferred Tax Asset	-	-	-	-	-	-	-
Advances	223	509	298	398	398	398	398
Assets	44	46	31	12	12	13	13
<b>Current Assets</b>	<b>3,916</b>	<b>4,625</b>	<b>5,355</b>	<b>7,358</b>	<b>9,996</b>	<b>10,200</b>	<b>9,252</b>
<b>Current investments</b>	<b>721</b>	<b>689</b>	<b>486</b>	<b>276</b>	<b>302</b>	<b>331</b>	<b>362</b>
Inventories	1,725	1,965	2,802	3,014	3,199	2,869	3,355
Trade Receivables	1,056	1,162	1,148	1,380	1,961	2,596	3,106
Cash and Bank Balances	152	230	62	1,532	3,132	2,818	636
Advances	220	185	448	535	535	535	535
Other Financial Assets	-	-	-	-	-	-	-
Other Current Assets	42	395	409	623	868	1,052	1,258
<b>TOTAL ASSETS</b>	<b>7,473</b>	<b>10,947</b>	<b>13,228</b>	<b>16,245</b>	<b>19,494</b>	<b>22,864</b>	<b>25,081</b>

Cashflow (Rs mn)	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
PBT	579	826	950	588	1,581	2,081	2,716
Depreciation	272	284	292	487	549	659	835
Net Chg in WC	-423	-231	-835	-778	-1,000	-768	-1,122
Taxes	-135	-235	-230	-171	-348	-437	-543
Others	-19	3	26	308	371	511	619
<b>CFO</b>	<b>274</b>	<b>648</b>	<b>202</b>	<b>435</b>	<b>1,153</b>	<b>2,046</b>	<b>2,505</b>
Capex	-593	-2,766	-2,049	-1,567	-999	-4,000	-4,000
Net Investments made	63	168	101	-840	-187	148	-31
Others	35	53	285	136	-	-	-
<b>CFI</b>	<b>-495</b>	<b>-2,545</b>	<b>-1,664</b>	<b>-2,272</b>	<b>-1,187</b>	<b>-3,852</b>	<b>-4,032</b>
Change in Share capital	-	-	-	3,775	1,139	11	-
Change in Debts	349	2,217	1,474	-1,071	1,048	2,237	285
Div. & Div Tax	-117	-133	-179	-476	-553	-755	-941
Others	-	-9	-12	0	-	-	-
<b>CFF</b>	<b>232</b>	<b>2,075</b>	<b>1,283</b>	<b>2,228</b>	<b>1,633</b>	<b>1,494</b>	<b>-656</b>
<b>Total Cash Generated</b>	<b>11</b>	<b>178</b>	<b>-178</b>	<b>391</b>	<b>1,600</b>	<b>-313</b>	<b>-2,183</b>
<b>Cash Opening Balance</b>	<b>13</b>	<b>43</b>	<b>221</b>	<b>43</b>	<b>1,532</b>	<b>3,132</b>	<b>2,818</b>
<b>Cash Closing Balance</b>	<b>24</b>	<b>221</b>	<b>43</b>	<b>1,532</b>	<b>3,132</b>	<b>2,818</b>	<b>636</b>
Ratios	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
OPM	11.2	11.2	10.8	12.3	15.0	16.4	17.7
NPM	5.7	6.0	5.9	3.6	7.8	8.6	9.5
Tax rate	-25.0	-25.1	-26.4	-31.0	-22.0	-21.0	-20.0
<b>Growth Ratios (%)</b>							
Net Sales	-15.5	36.0	15.5	-4.8	39.3	21.1	19.7
Operating Profit	-24.4	34.8	12.1	7.9	70.7	31.9	29.7
PBIT	-31.5	49.2	15.2	-9.5	102.3	35.5	30.4
PAT	-31.7	42.4	12.9	-41.9	203.9	33.3	32.2
<b>Per Share (Rs.)</b>							
Net Earnings (EPS)	19.91	28.35	32.01	16.01	47.00	60.16	79.54
Cash Earnings (CPS)	32.36	41.37	45.38	35.22	67.93	84.28	110.12
Dividend	8.00	3.60	2.00	3.00	7.05	9.02	11.93
Book Value	236.82	262.77	292.21	415.08	484.44	516.70	584.31
Free Cash Flow	-10.75	-98.11	-210.36	-134.87	-1.71	-79.78	-63.62
<b>Valuation Ratios</b>							
P/E(x)	117	82	73	146	50	39	29
P/B(x)	10	9	8	6	5	5	4
EV/EBIDTA(x)	61	47	43	44	27	22	17
Div. Yield(%)	0.34	0.15	0.09	0.13	0.30	0.39	0.51
FCF Yield(%)	-0.46	-4.20	-9.00	-5.77	-0.07	-3.41	-2.72
<b>Return Ratios (%)</b>							
ROE	9%	11%	12%	5%	11%	12%	14%
ROCE	11%	12%	11%	8%	12%	13%	15%
RoIC	9%	8%	8%	6%	11%	11%	12%

Source: Dalal &amp; Broacha Research, Company

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