



# JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

## RESEARCH REPORT

19<sup>th</sup> Feb 2018

### GANESHA ECOSPHERE LTD

**NSE : GANECOS**

**Sector: PET RECYCLING & PROCESSING**

**BSE:514167**

#### View - BUY

CMP : Rs. 350

Target Price: Rs 474 (In next 12 to 18 mths)

#### BUSINESS BACKGROUND

Ganesha Ecosphere (GEL), incorporated in 1987, is India's largest polyethylene terephthalate (PET) bottle scrap recycling company with a 25% market share, primarily engaged in the production of regenerated polyester staple fibre (RPSF) from waste PET bottles. GEL currently has a cumulative capacity of 97800 TPA (87600 - RPSF (fibre), 7200 TPA – RPSY (yarn) and 3000 TPA - dyed and texturised/twisted filament yarn). Currently, all manufacturing units are located in North India viz. Kanpur - UP, Rudrapur (Uttarakhand) and Bilaspur (UP). GEL recycles more than 4.5 billion bottles annually and is one of the leading environmental friendly companies in India.

#### INVESTMENT HIGHLIGHTS

##### Steady Financials for GEL as on Dec 2017 in FY18 –

GEL has shown consistent growth since last 4 years starting from FY13 onwards when its Topline was Rs 435.60 crs which has now touched nearly Rs 685 crs as on FY17 while PBT has improved from 26.50 crs in FY13 to Rs 46.22 crs in FY17 with net margins progressively up to around 4.65% in first 9 months of FY18.

In the first 9 months of FY18 GEL has already recorded a Topline of Rs 545.96 crs, a EBIDTA of Rs 62,03 crs and a PAT of Rs 25.41 crs on a equity base of Rs 19.17 crs.

##### GEL's product positioning as eco-friendly products player has kept its business model strong and in a niche segment -

According to a TechSci report, the Indian food services industry in FY17 was at \$13.8 billion (bn). It is expected to grow at 17% CAGR in the next 3 years. A subset of it, India beverage services market, at \$2.6 bn is expected to grow faster at 20.6% CAGR to \$4.5 bn. Subsequently, scrap of 800000 tonnes of PET bottles per annum is generated, which requires appropriate disposal mechanism or recycling. GEL aims to collect maximum PET waste through its 20+ collection centres across India, has collected over 79000 tonnes of PET wastes, equivalent to 4.4 billion PET bottles till date.

This collected waste acts as raw material for GEL products that find application in manufacture of eco-friendly manmade fibre/yarn, which are utilised for manufacturing textiles (T-shirts, body warmers, etc), functional textiles (non-woven air filter fabric, geo textiles, carpets, car upholstery) and fillings (for pillows, duvets, toys).

#### KEY DATA

FACE VALUE	Rs	10.00
DIVID YIELD %		0.34
52 WK HI/LOW		480/201
NSE CODE		GANECOS
BSE CODE		514167
MARKET CAP	RS	672 CRS

#### SHAREHOLDING PATTERN

PROMOTERS	-	45%
BANKS, MFs & DIIs	-	8%
FIIIs	-	%
PUBLIC	-	47%

#### KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	6	20	15
EBIDTA Gr%	6	30	15
PAT Gr%	10	37	25
EPS Gr%	10	37	25
EPS (Rs)	17.21	23.52	29.42
ROE %	14	16	17
ROCE %	12	13	13
P/E(x)		15	12

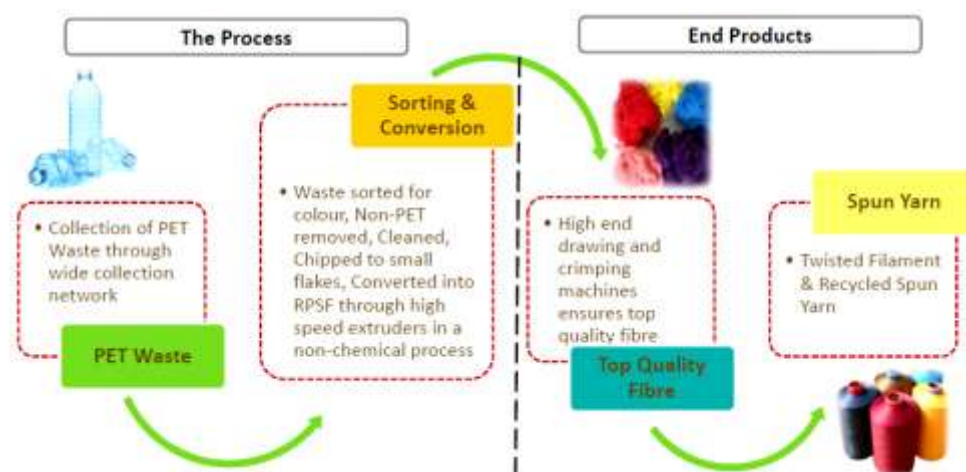
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**Geographical diversification and capacity expansion – is GEL's key for future growth**

GEL, since FY08, has increased its manufacturing capacity for RPSF from 38000 TPA to 87600 TPA in FY17. Given the utilisation levels maintained at 85%, revenue for the same period increased at 25% CAGR. Following the ramp up in utilisation levels, GEL is also undergoing expansion plan to increase its installed capacity by setting up another production line of Recycled Polyester Staple Fibre (RPSF) with capacity of 21,000 Tons per annum (TPA) at its unit situated at Temra, Bilaspur, U.P, raising consolidated RPSF capacity of the Company to 1,08,600 TPA at a cost of Rs.90 cr which will be partly funded by debt of Rs.60 cr. The commissioning of 21,000mtpa capacity in Feb 18 should add revenue of Rs 2bn (assuming asset turnover 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.

Another new unit is expected to come up at Andhra Pradesh at a cost of Rs 250 crs which will be implemented in 2 phases wherein the first phase will start in H1 of FY20 and 2<sup>nd</sup> Phase will start in H1FY21. These plans are yet at drawing board stage and a final plan will taken up shortly.

**Manufacturing Process undertaken by GEL –****Products & Applications of GEL's Products –****Products****Polyester Staple Fiber, Raw White Grade A****Polyester Staple Fiber, Black Grade A -****PSF, Solid Super White/Black Grade A -****PSF, triangle( TBL) or star, Raw White -****PSF, Solid Super White Grade A -**

Punch Fabrics and Stuffing use .

**PSF, Hollow(Mechanical Crimp), Hollow Conjugated** - Suitable for Stuffing to Pillows, Mattress, Soft toys, and producing Waddings, Interlining/Paddings.**PSF, Black and Dope Dyed Shades** - Suitable for Non-woven automotive/furnishing needle punch carpets, Felts and other Non-woven products**PSF, Coarse Deniers** - Suitable for Non-woven automotive/furnishing needle punch carpets, scrubbers and other Non-woven products.**PSF Batch dyed shades** For Non-woven Automotive application: Batch dyed fibres from special dyes with UV stabilization as per customer needs.**SF Fine Denier Siliconised In Bedding:** Duck-Down comforters, Pillows, Cushions; in Garment: Duck-Down Jumpers, Ski-wear, in Out-Door: Sleeping bags**Applications**

- Spinning yarns, non-woven, thermal bonding, needle punching, spun lace

Spinning yarns, non-woven, thermal bonding, needle punching, spun lace

Spinning yarns, non-woven, thermal bonding, needle punching, spun lace

Suitable for making Spun Yarns which needs a good shiny luster.

Suitable for making Geo-Textiles, Waddings, Paddings, Filters cloths, Needle

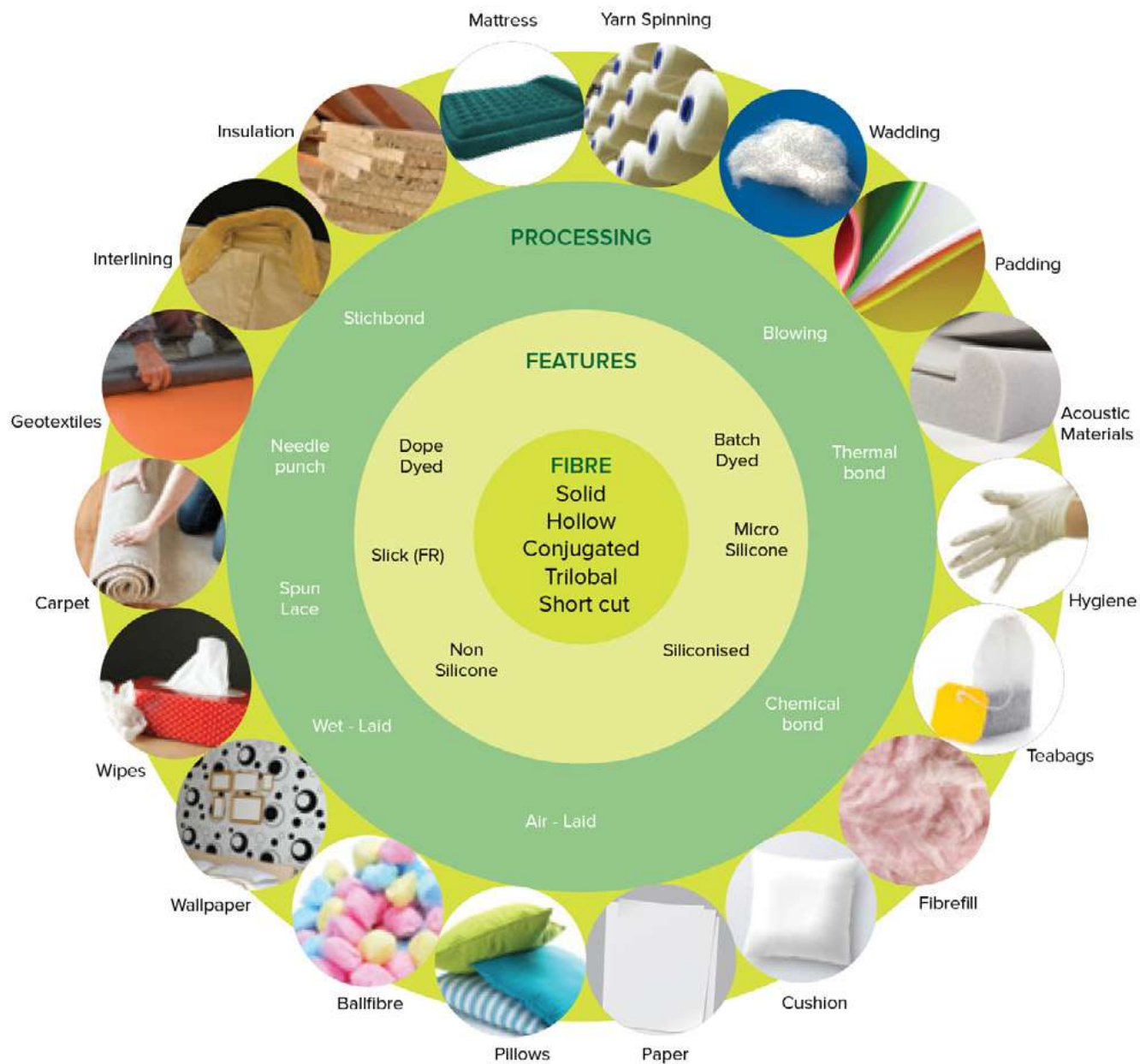


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## Downstream Applications





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### **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 resin 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". GEL has strong network of 25 collection centers for PET waste sourcing. GEL procures 50% of raw material from scrap aggregators and remaining through PET dealers. It also imports waste bottles from Middle East and Africa

### **GEL enjoys a strong positioning in regenerated polyester fibre Industry –**

GEL 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 GEL to grow aggressively and capture value chain. GEL increased its RPSF capacity by 121% from 39,600 TPA in FY09 to 87600 mtpa in FY17.

The manufacturing plants at Kanpur and Rudrapur are running at a capacity utilisation of 82% whereas, plant at Bilaspur is running at 70% capacity utilisation. The capacity has modern technology and is expected to get better realization as quality is at par with virgin polyester.

### **Increasing PET consumption and growing acceptance of recycled products –**

While the PET industry provides several benefits, it also brings with it drawbacks which pose threat to external environment. Consider this: Today, 95% of plastic packaging material value or \$80–120 billion annually is lost to the economy after first use. The recycling rate for plastics in general is even lower than for plastic packaging, and both are far below the global recycling rates for paper (58%) and iron and steel (70–90%). PET, used in beverage bottles, has a higher recycling rate than any other type of plastic, but even this success story is only a modest one: globally, close to half of PET is not collected for recycling. (Source: World Economic Forum, 2016)

This is where GEL plays its role. It has recycled more than 4.4 billion PET bottles and with its robust collection centre network across the country, GEL has ensured a steady raw material supply and contributed in saving valuable landfill space. In addition, GEL also has an integrated supply chain network with institutional collection centres like bottlers, hotels and corporates among others.

The integrated value-chain of streamlined supply and effective production, provides GEL with a competitive advantage. With increase in usage of PET bottles across several downstream industries, GEL is optimistic in enhancing their capacity utilisation levels. And with increasing demand for man-made fibres, GEL expects a rise in demand for its final product.

PET resins have been witnessing robust growth over last five years on account of increasing usage in various end user industries such as packaging & bottling, automobile and electrical & electronics. Increased demand for PET resin is driven by replacement of traditional packaging materials like glass, aluminium, paper, metal and growth in FMCG sector.

It is unbreakable, occupies less space, and is liked by consumers. Increasing urbanisation, enriching demographics (growing proportion of youth) and transforming lifestyles have catalysed PET consumption in India on the one hand and generated a corresponding increase in recycling on the other. India's per capita PET consumption is about 0.3 kg, considerably lower than the global average of about 2.3 kg thus creating a significant headroom and market size for future prospects of the business





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### **'Make in India' to drive higher demand for packaging –**

Plastics waste management rules to help improve visibility With increased Government focus on domestic manufacturing with 'Make in India' tag, the demand for PET resins are further expected to increase in India. The Government of India has also introduced the plastic waste management rule recently with an extended responsibility for recycling plastic scraps on all the manufacturers, producers and bulk generators of plastic. Therefore, this will have a good and positive impact on the industry in the time to come. For eg Hindustan Coca-Cola Beverages Pvt. Ltd. (HCCB) and GEL had tied up for collecting the industrial waste and is also working with HCCB in collecting the post-consumer waste.

According to Ken Research, Indian recycling PET market is likely to reach Rs. 205 billion by FY2018-19. The Plastic Waste Management Rules, 2016 issued by the Ministry of Environment, Forest and Climate Change puts extended responsibility for collection of plastic scraps on manufacturers, producers and bulk generators.

This will ensure increased collection of plastic waste, greater investments in waste collection processes, higher income for waste collectors/ rag pickers, elimination of intermediaries and transformation of plastic scrap business into organized market.

Sensing the opportunity put forth by new regulations for handling the plastic scrap, GEL is strengthening and widening its collection network across the country. GEL enjoys a competitive raw material sourcing capability through a robust pan-Indian network of 25+ collection centres mainly in Northern and Eastern parts of India. These collection centres are run on a franchisee model and feed about 40% of GEL's raw material requirements, while the rest is fed through a network of scrap dealers (mainly in South and West India). GEL is in the process of increasing collection centres to address growing raw material requirements.

### **Recycled Polyester – gaining acceptance Synthetic fibers are the most popular fibers in the world –**

It is estimated that synthetics account for about 65% of world production versus 35% for natural fibers. Most synthetic fibers (approximately 70%) are made from polyester, and the polyester most often used in textiles is polyethylene terephthalate (PET).

The majority of the world's PET production – about 62-67% – is used to make fibers for textiles; about 25% is used to make bottles. It is estimated that it takes about 104 million barrels of oil for PET production each year – that's 70 million barrels just to produce the virgin polyester used in fabrics. That means most polyester – 70 million barrels worth – is manufactured specifically to be made into fibers, NOT bottles, as many people think. Of the 25% of PET which is used to make bottles, only a tiny fraction is recycled into fibers.

But the idea of using recycled bottles – “diverting waste from landfills” – and turning it into fibers is fast catching up.

The reason recycled polyester (often written rPET) is considered a green option in textiles today is twofold, as

1. The energy needed to make the rPET is less than what was needed to make the virgin polyester in the first place, thereby saving energy.
2. Bottles and other plastics would have otherwise occupied landfill space.
- 3) The energy needed to make the rPET is less than what was needed to make the virgin polyester in the first place, thereby saving energy. It is true that recycling polyester uses less energy that what's needed to produce virgin polyester. Various studies all agree that it takes from 33% to 53% less energy.



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rPET is also cited as producing far fewer emissions to the air than does the production of virgin polyester. Recycling 1 ton of PET saves 1.5 tonnes of carbon dioxide. Glass and aluminium containers yield 230% and 175% more atmospheric emissions vis-à-vis PET.

Bottles and other plastics would have otherwise occupied landfill space rPET is divided into “post-consumer” PET and “post-industrial” rPET: post-consumer means it comes from bottles; post industrial might be the unused packaging in a manufacturing plant, or other by products of manufacturing.

The “greenest” option has been touted to be the post-consumer PET, and that has driven up demand for used bottles. Indeed, the demand for used bottles, from which recycled polyester fibre is made, is now outstripping supply in some areas certain suppliers are now buying NEW, unused bottles directly from bottle producing companies to make polyester textile fiber that can be called recycled.

Recycling 1 ton of PET containers saves 6 cubic meters of landfill space. There is also a growing optimism due to the increasing use of recycled polyester fibre by several global brands derived from growing environment responsibility.

In India, recycled fibre is used extensively in textiles – virtually the entire power loom sector uses this, Surat weavers have been putting it into sarees for years. It is also used in all manner of industrial textiles, in India’s huge carpet industry, from teddy bears to pillow stuffing, from scarves and stoles to bullet-proof vests, there’s a bit of recycled plastic virtually everywhere. Hence there has been an awareness created and scope for using recycled polyester fibre is increasing which will be helpful for GESL in future

### **Significant margin protection despite crude price volatility**

GEL also has advantage over virgin fibre 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 discount between virgin PSF and recycled PSF is about 15%. Though the price of RPSF is linked indirectly to that of virgin/crude oil prices, the effect of the same is not very drastic i.e. if the movement of crude oil prices is in a downtrend, the RPSF prices would also be in downtrend but not greater than the prices of virgin PSF, and vice versa.

Also GEL is looking to increase the revenue contribution from value added products like dyed yarn and dyed PSF. The discount component between virgin PSF and dyed RPSF is narrower than normal PSF which will benefit the EBITDA margins of the company. GEL is also planning to increase the share value added textiles in the overall product mix wherein it is increasing the production of coloured fibres and hollow silicone fibres where profit margins are higher as compared to RPSF fibres. While solid fibres are used in spinning, demand for hollow and hollow conjugated fibres is used in products like toys, cushions etc. GEL manufactures around 300 types of coloured dyed fibres as per customer specifications.

GEL has also started marketing its RPSF and spun yarn under the brand name “Revivere”. GEL also leases spindles for producing recycled spun yarn which helps to increase the production of value added products and generate better margins without incurring incremental capex.

Going ahead GEL expects profit margins to improve further after the Phase 2 at its Bilaspur facility and the implementation of its South India Capacity from FY20 onwards. Both these expansions will be very important for GEL as this will further consolidate GEL’s position in the industry while the South market is also important as it generates around 40% of the PET waste in India.



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## Global PET Industry Trends –

Polyethylene terephthalate (PET) is a plastic polymer produced by reacting two raw materials, purified terephthalic acid (PTA) & monoethylene glycol (MEG). The worldwide demand for PET is largely determined by packaging activity.

The main applications of PET are in packaging of bottled drinking water, carbonated soft drinks, edible oils, juices, alcoholic beverages etc. Globally, the demand for PET packaging, particularly PET bottles has been rising since 2010 because they do not break, easy to handle, can be resealed and are light for on-the-go consumption.

PET bottles are an increasingly popular type of packaging for carbonated soft drinks, bottled water, ready-to-drink tea and functional drinks. PET packaging has also been making up its markets for juice, packaged food, household cleaning products and pharmaceuticals, replacing other packaging materials in these end-use sectors. As demand for juices, soft drinks and packed foods are increasing, the demand for PET bottles are expected to increase.

Current global consumption of PET bottles in the retail market, including beverage, foods, beauty and home care industries, amounted to 471 billion bottles in 2015, out of which approximately 42% of its demand was from Asia Pacific. China, with 28% of global demand, is the world's leading consumer of PET bottles. Government's legislation and resource protection programs are major drivers for the development and recycling of PET.

The growth of the recycled PET is also being driven by big global brand owners, who are signing up for recycled PET in order to make a real difference to their brands, both environmentally and economically. According to a research body, the demand for PET packaging is expected to increase by an average of 4.6% annually over the next five years, and will amount to 19.9 million tonnes worth \$60 billion by 2019

## Polyester Stable Fibre (PSF) Industry Overview –

PSF is derived either directly from continuous polymerisation of purified terephthalic acid (PTA) or di-methyl terephthalate (DMT) and mono ethylene glycol (MEG), or from batch processing of PET fibre chips.

PSF fibres are available in different staple lengths (from 30 mm to 52 mm) and across different denier (from 0.8 denier to 1.6 denier). These fibres are similar in appearance to cotton or wool and can be used as substitutes. PSF is used for the production of blended or 100% non-cotton spun yarns, which are then woven into fabric for manufacturing apparels.

In India, over 60% of the demand for PSF comes from the blended yarn segment, which is largely used for suitings, shirtings and dress materials. PSF can be blended either with cotton, wool and viscose or with a combination of other fibres to produce blended yarn. Blended yarn mills frequently modify the proportions of polyester and other fibres, depending upon the market price of various blends and the price of fibres.

PSF is also used in technical textiles through non-woven technology, where it is used as stuffing for sleeping bags, mattresses, ski jackets, comforters, cushions, pillows, and furniture. In this form, it is called - hollow conjugate fibre or fibre fill. Polyester staple fibre (PSF) forms around 34% (in volume terms) of total man made textiles.

CRISIL Research expects overall PSF demand to continue growing at 4.5-5.5% CAGR as against 5.3% CAGR in the last five years. Demand from blended yarn and other applications, which account for 58% of PSF demand, is expected to increase at 3-4% till 2018-19 driven by demand for blended fabric because of the expected price differential vis-a vis cotton fabric.



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**GEL enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –**

In terms of financial performance for FY17, GEL has posted a Topline of close to Rs 685.95 crs, a EBIDTA of Rs 79.27 crs with EBIDTA margins of 11.56% and a PBT of Rs 46.22 crs followed by a PAT of Rs 29.94 crs.

GEL has shown consistent growth since last 4 years starting from FY13 onwards when its Topline was Rs 435.60 crs which has now touched nearly Rs 685 crs as on FY17 while PBT has improved from 26.50 crs in FY13 to Rs 46.22 crs in FY17 with net margins progressively up to around 4.65% in first 9 months of FY18.

In the first 9 months of FY18 GEL has already recorded a Topline of Rs 545.96 crs, a EBIDTA of Rs 62.03 crs and a PAT of Rs 25.41 crs on a equity base of Rs 19.17 crs.

Going ahead we expect GEL to grow its bottomline to Rs 56.40 crs by FY20 from Rs 29.94 crs in FY17 while Total Net Debt on the BS as on Dec 2017 has remained at around Rs 110 crs. The net D:E as on March 2017 stands at 0.43:1.

For FY17 ROE and ROCE stood at 13% and 14% respectively and by FY20 we expect the ROE and ROCE to touch 17% and 15% respectively.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 22-23% and going ahead also we believe that net cash flows generated will remain healthy going ahead.





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### Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 730 crs.

On the bottomline level we expect the company to record a PAT of Rs 33 crs in FY18E. Thus on a conservative basis, GEL should record a EPS of Rs 17.21 for FY18E. For FY19E and FY20E our expectation is that earnings traction for GEL will continue to remain strong wherein we expect a EPS of Rs 23 and Rs 29 respectively.

GEL which commissioned its PET recycled capacity in 1995 with attractive capital cost has an advantage of a wide product portfolio particularly in dyed fibers which is mainly supplied by unorganized players. The early entrance in low penetrated market has helped GEL to grow aggressively and capture the value chain. GEL increased its RPSF capacity by 121% from 39,600 TPA in FY09 to 87600 mtpa in FY17.

GEL is also undergoing expansion plan to increase its installed capacity by setting up another production line of Recycled Polyester Staple Fibre (RPSF) with capacity of 21,000 Tons per annum (TPA) at its unit situated at Temra, Bilaspur, U.P, raising consolidated RPSF capacity of the Company to 1,08,600 TPA at a cost of Rs.90 cr which will be partly funded by debt of Rs.60 cr. The commissioning of 21,000mtpa capacity has already started in Feb 18 and should add revenue of Rs 2bn going ahead. The new capacity has modern technology and is expected to get better realization as quality is in par with virgin polyester.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 22-23% with the ROE and ROCE is also expected to improve to 16% and 17% and 13% and 14% by FY19 and FY20.

GEL is also looking to increase the revenue contribution from value added products like dyed yarn and dyed PSF. The discount component between virgin PSF and dyed RPSF is narrower than normal PSF which will benefit the EBITDA margins of the company. GEL is also planning to increase the share value added textiles in the overall product mix wherein it is increasing the production of coloured fibres and hollow silicone fibres where profit margins are higher as compared to RPSF fibres. While solid fibres are used in spinning, demand for hollow and hollow conjugated fibres is used in products like toys, cushions etc. GEL manufactures around 300 types of coloured dyed fibres as per customer specifications.

GEL has also started marketing its RPSF and spun yarn under the brand name “Revivere”. GEL also leases spindles for producing recycled spun yarn which helps to increase the production of value added products and generate better margins without incurring incremental capex.

Going ahead GEL expects profit margins & Topline to get a significant boost after the Phase 2 at its Bilaspur facility and the implementation of its South India Capacity from FY20 onwards. We believe that Recycling will get more importance in days to come from the Government and is the need of time. So GEL will not have issues with raw material. Also its products created within the Textile and Non Textile are evergreen segments and increasing use of Synthetic materials is on the rise.

Hence we believe that the GEL stock should be purchased at the current price for a price target of around Rs 474 for the next 12 to 18 months



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## FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18E	FY19E	FY20E
Net Sales	685.95	730.00	876.00	1007.40
EBIDTA	79.27	84.03	109.50	125.93
EBIDTA %	11.56	11.51	12.50	12.50
Interest	14.87	13.50	16.5	19.00
Depreciation	20.43	22.00	25.00	28.00
Non Operational Other Income	2.25	1.00	1.00	1.00
Profit Before Tax	46.22	50.53	70.00	80.93
Profit After Tax	29.94	33.00	45.10	56.40
Diluted EPS (Rs)	15.62	17.21	23.53	29.42
Equity Capital	19.17	19.17	19.17	19.17
Reserves	208.65	239.40	282.00	335.90
Borrowings	99.28	134.00	167.00	187.00
GrossBlock	248.25	338.25	438.25	508.25
Investments	0.00	0.00	0.00	0.00

Source Company our Estimates

## KEY CONCERNS

Any slowdown in the man-made fibre industry, especially in polyester, will affect the demand of recycled polyester which can affect the company's revenue. However, increase in demand of green products can mitigate this risk. Volatility in cotton prices and supplies could impact demand for polyester yarns and in turn that of RPSF.

Organised PET recycling industry has grown to Rs.3500 cr p.a. India has about 41 units spread across 46 locations (mostly in north and west) with capacities ranging from 3000 tpa to 60000 tpa. But if any other player comes up with such a similar product or a greener, cheaper product than GEL, the company could face competitiveness which may lead to price wars in future, affecting the margins. There are about 13-14 companies engaged in the business similar to GEL but in an unorganised market and lacking economies of scale. The only large player is Reliance Industries, but for the company, PSF is a very small business and the conglomerate is not quite interested in expanding it.

The main raw material for GEL is the PET bottles. Any price increase in PET bottles due to shortage of supply or rise in the cost of making these bottles could affect GEL's revenue and profitability.

Recycled PSF prices are indirectly linked to the crude oil price and virgin PSF prices, though the relationship is not that significant as with virgin PSF. Downward movement in the oil prices could affect the realisation of PSF, thus affecting margins

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## **COMPLIANCE TEAM**

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