



IPO Note

Divyadhan Recycling Industries Limited

Recommendation: **APPLY!**

Company Background -

- **Incorporation:** Divyadhan Recycling Industries Limited was originally incorporated in the year 2010. The registered office is located at Mumbai City, Maharashtra, India.
- **Business Model:** The company is into the business of manufacturing of Recycled Polyester Staple Fibre (R-PSF) and Recycled Pellets.
- **Geographical Presence:** The company generates revenue and operates from 11 states of India.
- The company had 83 fulltime employees as of August 31, 2024.

Objects of the Issue -

- To meet the Capital Expenditure.
- To meet the General Corporate Purposes.
- To meet the Issue Expenses.

Promoters Name -

Pratik Gupta and Varun Gupta

Rationale for recommendation -

- ✓ The company's P/E is slightly highly priced
- ✓ The company has seen a good increase and consistency in its margins.
- ✓ The company has had a positive CFO for three years.
- ✓ The company has a good objective with expansion through the purchase of plant and machinery.
- ✓ The company has a good geographical presence.
- ✓ The management overview is satisfactory.

IPO Details

Opening Date	Sep 26, 2024
Closing Date	Sep 30, 2024
Allotment Date	Oct 01, 2024
Listing Date	Oct 04, 2024
Stock Exchange	NSE SME
Lot Size	2,000 Shares
Issue Price Per Share	₹60 to ₹64
Issue Size	24.17 Cr.
Fresh Issue	24.17 Cr.
Offer for Sale	-
Application Amt	₹ 1,31,200 (1,600 shares)

INDUSTRY - Polyester Fibre Industry P/E Average of Peers - 68.36 times

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	5,777.70	5,733.83	5,612.99
EBITDA	85.83	424.99	270.30
Net Profit	52.93	216.19	237.80
RoCE	-4.90%	24.03%	6.84%
ROE	8.31%	25.34%	18.42%
P/E	118.52	29.09	26.56

Promoter Share Holding Pattern

Pre-Issue	Post Issue
94.06%	69.24%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	2.41	1.66
BVPS	24.52	25.92
P/E	26.56	38.50
P/BV	2.61	2.47
Mkt Cap (In Cr)	67.40	91.56

Lead Managers -

Narnolia Financial Services Limited

Registrar -

Skyline Financial Services Private Limited

Business Overview -

Divyadhan Recycling Industries Limited was incorporated in the year 2010. The company’s current promoters acquired the company from its original promoters. The company started its operations in the financial year 2018-19.

Product Portfolio -

The company operates in a B2B Segment. The company is into the manufacturing of Recycled Polyester Staple Fibre (R-PSF) AND Recycled Pellets.

Recycled Polyester Staple Fibre (R-PSF) – The company manufactures this from PET bottles (Polyethylene Terephthalate bottles) of coke, soda, water or other post-consumer PET bottles or post-industrial waste.

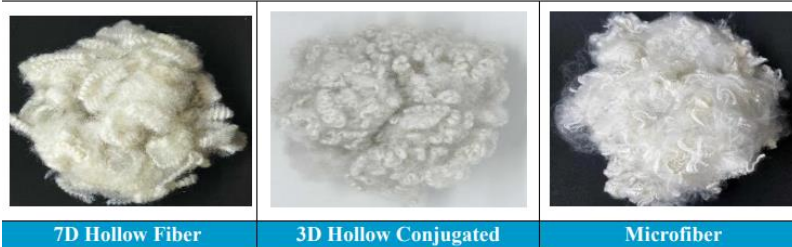
Recycled Pellets/chips – The company also manufacture pellets called as Recycled Pellets which are sourced from the same raw material as is recycled polyester staple fibre. The manufacturing process is also same as that of Recycled fibres for manufacturing pellets. These pellets are used to manufacture bottles or new plastic products such as storing and packaging bottles.

Manufacturing Facility -

The Company has a manufacturing facility situated at Village Kalyanpur, Tehsil Baddi, Dist Solan Himachal Pradesh.

The company’s capacity utilization for Recycled Fiber consisted of 86.91%, 83.29%, and 87.91% for FY ended 2022, 2023, and 2024 respectively.

The company recently started its operations with Recycled Pellets and is still in the trial stage of manufacturing the recycled pellets. Thus, the capacity utilization for FY ended 2024 was 17.78%.



Financial Performance -

Decrease in Revenue -

The company has seen a reduction in its top line due to a decrease in the sale of recycled fibre in domestic.

The company recently saw revenue generation from EPR Certifications.

Increase in Other Income -

The company has seen an increase in the OI due to a significant increase in government grants which include GST Reimbursements and capital Investment Incentives and Commission Income.

Revenue Bifurcation -

Amt in lakhs

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Recycled Fiber	5616.06	97.20	5694.22	99.31	5314.19	94.68
Recycled Pellets	-	-	-	-	148.7	2.65
Pet Flakes	-	-	5.59	0.10	5.46	0.10
PET Recycling By Products	112.74	1.95	-	-	-	-
Sale of Scrap	48.9	0.85	34.2	0.60	60.57	1.08
EPR Certificates	-	-	-	-	84.06	1.50
Total	5,777.70	100.00	5,734.01	100.00	5,612.98	100.00

Net Proceeds Utilization –

The company is utilizing Rs. 17.03 Cr for capital expenditure. The company is planning to purchase various plants and machinery. These plants and machinery will be set up at the manufacturing facility located at Baddi, Himachal Pradesh. The company is also purchasing PET Bottle Washing Line. This proposed installation will expand and upgrade the existing washline from 1MT to 3 MT per hour. The company's proposed machinery is procured for recycling the by-product from the PET Washline, i.e., Caps. The flakes obtained will be converted into new recycled products.

Competition -

Market Competition: High, the recycling industry is crowded with both domestic and international players, competing on product quality, pricing, and brand reputation.

Barriers to entry: Low, Low barriers to entry in raw material availability and demand for recycled products make it easy for financially strong entities to enter the market.

Bargaining Power of Suppliers: Low, Raw materials for recycling are easily accessible, reducing the negotiating power of suppliers.

Bargaining Power of Buyers: High, Buyers have diverse sources for recycled products, allowing them to negotiate on price and quality.

Threat of Substitutes: Moderate, Alternatives to recycling, such as using virgin materials, could pose a threat depending on consumer preferences and regulatory changes.

Strategies –

- The company intends to expand its operations by setting up a new manufacturing facility in Baddi, Himachal Pradesh.
- The company intends to capitalise on the rapidly growing sector of recycled fibre and pellets opportunities by supplying required products and services.
- The company intends to focus on adhering to the quality standards of the offerings.

Risk Factors –

The company and promoters are involved in certain legal proceedings amounting to Rs. 0.82 lakhs.

The company derives the majority of its revenue from the state of Himachal Pradesh contributing to 87.17%, 94.96%, and 88.55% for the FY ended 2022, 2023, and 2024 respectively.

The group company has litigations amounting to Rs. 282.99 lakhs.

The company's top 10 suppliers contributed to 62.98% of FY Ended 2024.

One customer contributed to 75.77%, 84.85%, and 88.05% for the FY ended 2022, 2023, and 2024 respectively.

The company has contingent liabilities amounting to Rs. 20.78 lakhs as on FY 2024.

PEER ANALYSIS

Particulars	Divyadhan Recycling Industries Limited			Ganesha Ecosphere Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	0.92%	3.77%	4.24%	6.03%	5.82%	3.57%
EBITDA Margin	1.49%	7.41%	4.82%	11.75%	11.82%	13.41%
RoCE	-4.90%	24.03%	6.84%	10.88%	11.30%	7.07%
ROE	8.31%	25.34%	18.42%	10.78%	10.88%	4.00%
EPS (INR)	0.54	2.20	2.41	28.38	31.81	17.21
P/E	118.52	29.09	26.56	25.38	26.54	57.23

Indian Polyester Fibre Industry -

Market Overview -

India Polyester Staple Fibre Market has reached USD1.54 billion by 2023 and is anticipated to project robust growth in the forecast period with a CAGR of 4.25% through 2029. Polyester Staple Fibre (PSF) is extensively used in spinning and other textile applications due to its durability, cost-effectiveness, and versatility. In the Indian PSF market, there are two main categories: solid and hollow products. Solid PSF is widely popular in traditional textile manufacturing, known for its strength and resilience. On the other hand, hollow PSF is gaining traction for its unique properties such as lightweightness and excellent insulation.

However, the widespread use of synthetic fibers like polyester has raised environmental concerns. These fibers are non-biodegradable, posing a significant threat to the ecosystems. To address this issue, the industry must focus on innovation and invest in recycling technologies to ensure the sustainability of PSF production. By adopting these recycling methods, can minimize the environmental impact and promote a circular economy.

Recycled Pellets Industry -

Plastic Pellets Market was valued at US\$ 8.04 Bn. in 2023 and is expected to reach US\$ 11.47 Bn. by 2030, at a CAGR of 5.20% during the forecast period. The plastic pellets market has witnessed significant growth in recent years, driven by the increasing demand for plastic products across various industries. Plastic pellets, also known as plastic resins or granules, are small, solid particles used as raw materials in the production of plastic products. They are typically made from different types of polymers such as polyethylene (PE), polypropylene (PP), polyvinyl chloride (PVC), and polystyrene (PS).

The plastic pellets market is poised for steady growth in the coming years, driven by factors such as the increasing demand for plastic products, technological advancements in plastic manufacturing processes, and the growing awareness of environmental sustainability. The market is characterized by intense competition among key players, who are focusing on innovation, strategic partnerships, and expansion to gain a competitive edge.

Market Drivers -

- Growing End-Use Industries: The expansion of industries such as packaging, automotive, electronics, and construction is driving the demand for plastic pellets.
- Lightweight and Cost-Effective: Plastic pellets offer advantages such as lightweight, durability, and cost effectiveness compared to other materials, making them highly desirable for manufacturers
- Versatility and Customization: Plastic pellets can be easily moulded into various shapes and sizes, allowing manufacturers to customize products according to specific requirements.

Plastic Pellets Market

Plastic Pellets Market Share, by Region in 2023 (%)



Source: RHP

Key Management -

Key Management Persons Name -	Varun Gupta
Age	35
Designation and No. of years of experience	Promoter and Managing Director, experience of 13 years in Pharmaceutical Industry and Recycle Polymer fibre. .
Qualification	Bachelor's degree in engineering, Master of Business Administration
Roles and Responsibility	leads all marketing functions, creation of brand awareness, customer acquisition through strategic planning and execution
Other Directorships	Amama Jewels Private Limited, YMC India Private Limited
Key Management Persons Name -	Pratik Gupta
Age	35
Designation and No. of years of experience	Promoter and Director with experience of 10 years in the Recycled Polymer industry
Qualification	Bachelor of Engineering (Honours) in Systems Engineering
Roles and Responsibility	looking all day-to-day activities and ensuring product standards
Other Ventures	Vinpro Recycletech Private Limited, Proma Industries Limited
Key Management Persons Name -	Manoj Kumar
Age	42
Designation and No. of years of experience	Non-Executive Director, 4 years of experience in the industry.
Qualification	Diploma in Electronics.
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Satish Chandra Sharma
Age	39
Designation and No. of years of experience	Independent Director, 12 years of experience in Compliance management.
Qualification	Company Secretary
Roles and Responsibility	-
Other Directorships	Regal Enterprises Ltd, Haryana Global Limited
Key Management Persons Name -	Priyanka Agarwal
Age	37
Designation and No. of years of experience	Independent Director, more than 14 years in the Secretarial compliance, corporate restructuring, valuation etc.
Qualification	Company Secretary
Roles and Responsibility	-
Other Directorships	Future Retail Limited (Under CIRP) , Haryana Global Limited

FINANCIAL SNAPSHOT

Statement of Profit and Loss			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
Revenue from Operations	5,777.70	5,733.83	5,612.99
Other Income	203.82	81.69	299.89
Total Income	5,981.52	5,815.52	5,912.88
Expenses			
Cost of Material Consumed	5,490.84	5,099.93	5,064.94
Changes in Inventories of Stock in Trade	-8.71	-2.89	22.50
Employee Benefit Expenses	85.52	96.52	90.16
Finance Cost	75.69	56.33	64.61
Depreciation and Amortization Expense	141.69	150.27	176.18
Other expenses	124.22	115.28	165.09
Total Expenses	5,909.25	5,515.44	5,583.48
EBITDA	85.83	424.99	270.30
EBITDA Margin	1.49%	7.41%	4.82%
Profit/(Loss) before tax	72.27	300.08	329.40
Tax Expense			
Current tax	17.45	87.08	95.89
Deferred Tax	1.31	-3.19	-4.29
Mat Credit	0.58	-	-
Total Tax	19.34	83.89	91.60
Profit/(Loss) for the year	52.93	216.19	237.80
Net Profit Margin	0.92%	3.77%	4.24%

Statement of Assets and Liabilities			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	500.00	500.00	526.54
Reserves and surplus	137.05	353.23	764.49
Total Shareholder's Fund	637.05	853.23	1,291.03
2. Non-current liabilities			
Long-term borrowings	460.25	247.51	48.08
Deferred Tax Liabilities (Net)	33.88	30.68	26.39
Long-term provisions	8.75	11.86	11.40
Total non-current liabilities	502.88	290.05	85.87
3. Current liabilities			
Short-term borrowings	339.51	298.04	558.56
Trade Payables			
Total outstanding dues of MSME	25.51	27.49	188.81
Total outstanding dues of creditors other than MSME	195.26	312.43	130.36
Other Current Liabilities	65.46	78.28	71.33
Short-term provisions	2.08	79.12	86.14
Total Current liabilities	627.82	795.36	1,035.20
Total Liabilities	1,130.70	1,085.41	1,121.07
Total Equity and Liabilities	1,767.75	1,938.64	2,412.10
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	1,205.24	1,187.80	1,229.79
Total non-current assets	1,205.24	1,187.80	1,229.79
2. Current assets			
Inventories	211.47	485.49	452.77
Trade Receivables	197.74	196.10	340.46
Cash & Cash equivalents	1.34	0.65	200.50
Short term loans and advances	6.55	7.09	19.40

Particulars	FY 22	FY 23	FY 24
Other Current Assets	145.40	61.51	169.19
Total Current assets	562.50	750.84	1,182.32
Total Assets	1,767.74	1,938.64	2,412.11

Cash Flow Statement

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	383.51	442.10	220.98
Net Cash Flow from Investing Activities	-74.19	-132.24	-217.62
Net Cash Flow from Financing Activities	-308.99	-310.54	196.48

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24
Diluted EPS	0.54	2.2	2.41	EV/EBITDA	16.72	3.29	6.28
BV per share	707.83	17.38	24.52	Market Cap / Sales	1.58	1.60	1.63
<u>Operating Ratios</u>				P/E	118.52	29.09	26.56
EBITDA Margins	1.49%	7.41%	4.82%	Price to Book Value	0.09	3.68	2.61
PAT Margins	0.92%	3.77%	4.24%	<u>Solvency Ratios</u>			
Inventory days	13.36	30.90	29.44	Debt / Equity	1.26	0.64	0.47
Debtor days	12.49	12.48	22.14	Current Ratio	0.90	0.94	1.14
Creditor days	17.15	25.09	25.67	Quick Ratio	0.56	0.33	0.70
<u>Return Ratios</u>				Asset Turnover	3.27	2.96	2.33
RoCE	-4.90%	24.03%	6.84%	Interest Coverage Ratio	-0.74	4.88	1.46
RoE	8.31%	25.34%	18.42%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Narnolia Financial Services Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Narnolia Financial Services Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Aesthik Engineers Limited	26.47	58.00	Aug 16, 2024	77.8
2.	Ztech India Limited	37.30	110.00	June 05, 2024	382
3.	Radiowalla Network Limited	14.25	76.00	April 05, 2024	123
4.	Addictive Learning Technology Limited	60.16	140.00	Jan 30, 2024	354
5.	Akanksha Power and Infrastructure Limited	27.49	55.00	Jan 03, 2024	149
6.	Supreme Power Equipment Limited	46.67	65.00	Dec 29, 2023	280
7.	WomanCart Limited	9.56	86.00	Oct 27, 2023	301
8.	Inspire Films Limited	21.23	59.00	Oct 05, 2023	34
9.	Cellecor Gadgets Limited	50.77	92.00	Sep 28, 2023	62
10.	Yudiz Solutions Limited	44.84	165.00	Aug 17, 2023	58

The company has handled 12 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 26th Sep 2024.

As per the offer document, the above-mentioned mandate 1 has opened at a discount and the remaining all have opened at a premium on the listing day.

Recommendation -

Divyadhan Recycling Limited has been in the industry since 2018 and has good experience in the industry. The management overview of the company is satisfactory.

The P/E on a post-IPO basis is around 38.50 times which makes it slightly highly priced by looking at the performance of the company and compared to its peer companies.

The company operates in a competitive and fragmented industry. The industry in which the company operates has seen good growth and is expected to grow the same in the near future. The company is utilising its proceeds for capital expenditure of setting up new plants and machinery, and also start generating revenue from its new segment. We believe this will boost the growth of the company in the near future.

The company's financial performance is satisfactory with good margin growth (noticeable decrease in the margin for FY 2024 but nothing of major concern and looks sustainable with growth) and positive cashflows for all the years. The company has also performed almost at par with its peer company.

Thus, we have an **APPLY** opinion of this IPO.

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