

Case Study: Ganesha Ecosphere Ltd.

GESL's Story

Ganesha Ecosphere Ltd. (GESL), which began operations in 1987, collects polyethylene terephthalate (PET) bottle waste and recycles it into polyester staple fiber and yarn for further use. The waste collection process in India, typically done through manual scavenging, is neither organized nor regulated. This challenge for the country has become particularly acute given increasing PET usage—estimated to be growing at a compound annual rate of 20% over the next four years¹—and overall low levels of recycling. Since its inception, GESL has grown to become one of India's largest PET waste recyclers, having set up a network to collect and transport waste that is then transformed into materials that can be used in the manufacturing of items such as tee-shirts, body warmers, carpets or fillings for pillows and soft toys.

Looking for investments with high growth potential in green technologies, the MCap Fund Managers' team came across GESL in the course of its routine sourcing and evaluation process. They were attracted by the fact that the company's management had been together for over 30 years, building a track record of efficient operations and growth. Given growing environmental



conservation measures and a greater overall eco-consciousness within India, MCap believed that GESL offered the potential for profitable growth while simultaneously providing an essential service in protecting the environment through the collection and recycling of non-biodegradable waste. At the time that MCap approached the company, GESL was looking to augment their installed capacity from 58,000 tons per annum (tpa) to 88,000 tpa. The company's debt/equity ratio (1.79 as of March 2014) constrained its capacity to borrow additional capital, while internal accruals were insufficient to fund an expansion. A partnership was formed, and in October 2014, MCap invested US\$5.5 million in GESL for a 15.6% stake in a PIPE (private investment in public equity) transaction.

The Role Played by Private Capital

With its initial investment in GESL, MCap expected the company to grow at a strong pace as a result of several key initiatives and trends, including: (1) an expansion in capacity; (2) the introduction of new and value-added products such as high tenacity fiber and fine denier fiber; (3) rising usage of the company's products as awareness and adoption of recycled goods continues to increase; (4) value accretion as global firms looking to enlarge their green footprint adopt the company's products; and, (5) an evolving regulatory environment that could simplify the collection of raw materials. In addition, MCap had a number of ideas on how

to improve GESL's operations in order to enhance value.

In particular, MCap wanted to focus on the company's marketing and branding strategy, as well as its sourcing processes. Traditionally, recycled fiber and yarn had been sold as a cheaper alternative to virgin grade products, and were primarily purchased by manufacturers seeking to reduce their overall costs. However, MCap believed that recycled fiber should actually be sold at a premium given its value to the environment. By marketing the strengths of recycled fiber and positioning it as an environmentally ▶

The Company



GANESHA ECOSPHERE LTD.

Essentials

Company: Ganesha Ecosphere Ltd.

Website: ganeshaecosphere.com

Country: India

Sector: Waste and disposal services

Business focus: PET waste recycling

Size: US\$97.5 million in revenue (2015-2016)

GP: MCap Fund Managers, an India-focused multi-strategy private equity investment advisory firm (mcapfundadvisors.com)

Date of investment: October 2014

Investment: MCap invested US\$5.5 million in GESL for a 15.6% stake

Impact Highlights

Recycled fiber has traditionally been sold as a cheaper alternative to virgin grade products; however, MCap believed that it should actually be sold at a premium given its value to the environment. By marketing the strengths of recycled fiber and positioning it as an environmentally friendly product to several global retailers focused on industries such as apparel, sports, adventures and bags, the private equity firm was able to broker several initial orders with improved realizations.

One of MCap's highest priorities was the implementation of high-end environment, health and safety (EHS) measures across all of GESL's business entities. MCap decided to increase its investment in the company by an additional US\$500,000, with the new capital specifically targeting EHS improvements. As of October 2016, two of the company's units had become fully EHS compliant, with the last unit expected to become so by the end of the year.

With MCap's assistance, GESL is increasing its recycling capacity by an additional 21,000 tpa by September 2017, resulting in the saving of landfill space, lower energy use and a reduction in CO2 emissions.

The Company View

“MCAp recognized what strengths GESL had and approached us with a clear game plan as to how they could work with us to move towards agreed-upon objectives that would benefit us, them and society. GESL’s operating efficiencies have profited immensely from MCAp’s strategic planning strength, global outlook and network with investors, financial institutions and global companies for partnership.”

Mr. Shyam Sundar Shamma
Chairman, Ganesh Ecosphere Ltd.

IMPACT HIGHLIGHTS

	Initial Investment	March 2016
Enterprise value (US\$m)	53.2	68.1
Revenue (US\$m)	83.2	97.5
EBITDA (US\$m)	9.0	11.1
# of employees	1,500	1,800
# of female employees	125	175
Health and safety policies in place	No	Yes
Investments in local communities	No	US\$150,000 directed toward corporate social responsibility over two years

► friendly product to several global retailers focused on industries such as apparel, sports, adventures and bags, the private equity firm was able to broker several initial orders with improved realizations ranging between 5% and 12%.

With regard to sourcing, GESL’s collection network historically piggy-backed on the efforts of the unorganized manual scavengers, who in turn work with a chain of aggregators and sorters. There is no organized framework for the collection of plastic bottles in India, either through a municipal network or via a reverse collection process instituted by the producers (as is often done with glass bottles). MCAp felt that institutionalizing the collection process and additionally sourcing from institutions would result in lower costs and better quality, thus impacting GESL immensely. Therefore MCAp began to build relationships with generators

of PET waste such as soft drink and bottled water manufacturers, and with institutions such as corporate campuses, colleges, hotels and airports where PET waste could be collected and recycled. The firm also launched an initiative to promote Reverse Vending Machines (RVMs), designed to increase collection as well as raise public awareness.

MCAp additionally implemented a number of operational enhancements designed to promote more proactive risk management and to instill better financial discipline and monitoring, including establishing annual strategic planning for capital allocation and progress monitoring purposes. An enterprise resource planning (ERP) tool was installed to improve management information systems (MIS) and compliance, while the private equity firm also advocated for stronger investor communications to promote better transparency.

Beyond the Bottom Line

One of MCAp’s highest priorities following its investment was the implementation of high-end environment, health and safety (EHS) measures across all of GESL’s business entities. MCAp believed that GESL—as a company representing the importance of having a positive impact on the environment and society writ large—needed to ensure that its own internal operations were compliant. In addition, having a strong EHS framework would help GESL become more attractive to potential international sourcing and buying partners. MCAp decided to increase its investment in the company by an additional US\$500,000, with the new capital specifically targeting EHS improvements. As of October 2016, two of the company’s units had become fully EHS compliant, with the last unit expected to become so by the end of the year.

With MCAp’s assistance, GESL is increasing its recycling capacity by an additional 21,000

tpa by September 2017, resulting in the saving of landfill space, lower energy use and a reduction in CO2 emissions. Studies have shown that recycling one ton of PET waste saves approximately 7.4 cubic yards of landfill space and 1.5 tons of CO2 emissions. In addition, recycling one PET bottle saves enough energy to power a 60W light bulb for 38 hours.²

This expansion in capacity has also created indirect employment for an additional 12,000 manual scavengers as well as direct employment to approximately 300 employees and an additional 100 contractual workers. MCAp and GESL are actively engaging the scavengers to ensure that they are enjoying better working conditions as well as an improvement in earnings, while safety has become a key focus for the company’s direct employees through improved EHS norms.

² The Cambridge MIT Institute (Energy Balance in Recycling One PET Bottle).