Ganesha Ecosphere Ltd (GNPL)

2QFY26 Result Update | **Textiles & ESG**

Institutional Equity Research Desk

Weak quarter; regulatory drag, recovery from Jan

November 12, 2025

Q2 FY26 consolidated revenue stood at Rs. 3.63 bn, up 7.8% QoQ but down 6.1% YoY. EBITDA fell sharply to Rs. 223 mn, down 38.6% QoQ and 58.2% YoY, with margin compressing to 6.1% (vs. 10.8% QoQ and 14.3% YoY). GESL reported a consolidated net loss of Rs. 5 mn, against a profit of Rs. 108 mn in Q1FY26 and Rs. 271 mn in Q2FY25. Standalone revenue increased to Rs. 2.59 bn (vs. Rs. 2.22 bn QoQ), while standalone PAT remained steady at Rs. 78 mn (vs. Rs. 77 mn QoQ) but dropped from Rs. 203 mn YoY. Consolidated sales volume rose 16.3% QoQ to 39,132 MT, with overall capacity utilization averaging ~80% during the quarter. Legacy PSF/textile business grew 17.1% QoQ, offsetting a 10% decline in subsidiary sales, while exports contributed ~11% to total revenue.

Quarter performance was hit by a double impact of inventory losses and regulatory uncertainty. Raw material (PET bottle scrap) prices that surged to Rs. 55–56/kg in Q1 corrected sharply to Rs. 44–45/kg, resulting in a cost mismatch and ~Rs. 100–110 mn inventory loss as high-cost inventory (~Rs. 50/kg) was consumed during Q2. Simultaneously, demand for rPET granules weakened after the Ministry of Environment's draft notification (June 2025) proposed allowing companies to offset their recycled content shortfall over the next three years, prompting major F&B players to defer purchases. As a result, GESL delivered only 70% of rPET production in Q2, leading to elevated inventories and muted B2B margins. Average realizations declined ~3% in the legacy segment and ~6% in subsidiaries. The legacy PSF/yarn business (65% of revenue) continued to stabilize despite headwinds in the textile export market, aided by better domestic demand and improving order inflows. Management expects EBITDA margin recovery to 7–9% range over H2FY26. The rPET granules business is expected to see muted volumes in Q3FY26, with revival from Jan 2026 (Q4FY26) as customers resume orders; capacity utilization is expected to reach 90%+ by Mar 2026.

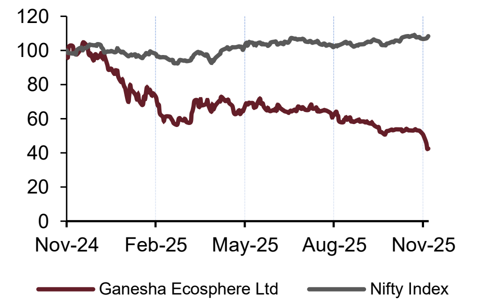
On expansion, the Warangal brownfield project adding 22,500 TPA rPET capacity (Rs. 1.3 bn capex) remains on track for commissioning by Mar 2026, with annual revenue potential of Rs. 2.25–2.5 bn. The greenfield project (Rs. ~5.0 bn capex) is delayed slightly amid current market conditions but is expected to go live by end-FY27. The government's recycled content mandate for FY26 remains at 30%, rising to 40% in FY27. The final MOEF notification is expected shortly, with industry-approved food-grade rPET capacity now at ~210,000 TPA (vs. 70,000 TPA six months ago). Post-expansion, GESL's product mix is expected to shift materially from 65% PSF currently to 65% rPET granules by FY27-end, unlocking higher-margin growth in the long term.

Rating	TP (Rs)	Up/Dn (%)
BUY	**1,286**	**32**

Market Data		
Current price	**Rs**	973
Market Cap (Rs.Bn)	(Rs Bn)	26
Market Cap (US$ Mn)	(US$ Mn)	294
Face Value	Rs	10
52 Weeks High/Low	Rs	2484.2 / 956
Average Daily Volume	('000)	403
BSE Code		514167
Bloomberg		GNPL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	**Sep-25**	**Jun-25**
Promoters	39.33	39.33
Public	60.51	60.51
Total	**100.00**	**100.00**

Source: BSE

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Key financial highlights

- Revenues at Rs.3634Mn,-6.1%YoY/7.8%QoQ
- EBITDA (Excl OI) at Rs.224Mn,-59.7%YoY/-38.6%QoQ
- PAT at Rs.-6Mn,-102%YoY/-104.9%QoQ
- Gross Margin came in at 31% vs 36.8% YoY/35.4% QoQ
- Gross Margin saw decline of -583 bps on YoY basis
- EBITDA Margin (Excl OI)came in at 6.2% vs 14.3% YoY/10.8% QoQ
- EBITDA Margin (Excl OI)saw decline of -816 bps on YoY basis

Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e
Net sales	10,214	11,796	11,229	14,655	15,251	18,633	23,757
EBIDTA	1,139	1,277	1,378	2,106	1,547	2,672	3,610
Margins	11.2	10.8	12.3	14.4	10.1	14.3	15.2
PAT (adj)	619	699	406	1,031	456	1,110	1,594
Growth (%)	42.4	12.9	-41.9	154.1	-55.8	143.6	43.5
EPS	28.35	32.01	16.01	40.49	17.35	42.26	60.65
P/E (x)	34	31	61	24	56	23	16
P/B (x)	4	3	2	2	2	2	2
EV/EBITDA (x)	21	20	19	14	20	13	9
RoE (%)	11	12	5	9	4	9	12
ROCE (%)	12	11	8	11	6	10	13
RoIC (%)	8	8	6	9	5	8	10

Source : Company,Dalal & Broacha Research

Inventory-led weakness; demand revival expected from Jan 2026

GESL's Q2FY26 performance was hit by high-cost inventory consumption and regulatory uncertainty, resulting in muted margins and a small loss. The PET scrap price surge in Q1FY26 (~Rs. 55–56/kg) followed by a sharp correction to Rs. 44–45/kg created a cost mismatch, leading to inventory losses of ~Rs. 100–110 mn. Simultaneously, the draft MoEFCC notification (June 2025) allowing a 3-year compliance carry-forward caused FMCG and F&B brands to defer recycled PET purchases, impacting rPET granule deliveries. Consequently, only ~70% of produced granules were sold during the quarter, resulting in lower capacity utilization (~80%) and higher inventory. Management expects recovery from Jan 2026, supported by festive demand, normalized raw material prices, and export orders.

Legacy PSF steady; rPET granules remain near-term drag

The legacy PSF and yarn segment (~65% of total revenue) showed sequential growth of 17% QoQ, aided by stable domestic textile demand despite continued global slowdown and tariff headwinds in exports. However, rPET granule sales fell due to regulatory uncertainty. Management expects PSF EBITDA margins to recover to 7–9% by H2FY26 as high-cost inventory gets fully consumed. The rPET segment is expected to revive from Q4FY26 once the final MoEFCC notification is issued and brand demand resumes.

Brownfield expansion on track; greenfield delayed marginally

The 22,500 TPA brownfield rPET granule expansion at Warangal (Rs. 1.3 bn capex) is on schedule for completion by Mar 2026, with annual revenue potential of Rs. 2.25–2.5 bn. The 67,500 TPA greenfield project (~Rs. 5 bn capex) has been deferred slightly amid current market conditions and is now expected to commission by end-FY27. Together, these projects will raise total installed capacity by ~90,000 TPA, with asset turnover expected at 1.25x–1.3x and higher-margin chips driving profitability.

Regulatory clarity imminent; long-term visibility intact

India's EPR norms mandating 30% recycled PET use in FY26 are expected to rise to 40% in FY27 and 60% by FY29. The final MoEFCC notification is anticipated soon, which should unlock deferred demand in Q4FY26. The approved rPET food-grade capacity in India has already tripled in six months—from 70,000 TPA to ~210,000 TPA—signaling industry readiness. Cumulative shortfall from FY26 will make deferral unsustainable, ensuring strong medium-term compliance-driven demand.

Product mix shift toward high-margin rPET to aid profitability

GESL plans to transition from a current product mix of 65% PSF and 20% rPET chips to ~65% chips and 35% PSF/yarn by FY27-end, led by commissioning of new capacity. The shift toward higher-margin rPET granules and value-added products will support EBITDA margin expansion of >300 bps over the next 18–24 months. With demand recovery from Jan 2026, normalization of pricing, and regulatory clarity, management expects steady earnings growth from H2FY26 onward.

Valuation & Outlook

Q2 FY26 was a transitional quarter for GESL, marked by short-term pain from high-cost inventory consumption and regulatory uncertainty, but underlying demand drivers remain firmly intact. With raw material prices stabilizing (PET scrap at Rs. 44–45/kg vs. Rs. 55–56/kg in Q1) and the bulk of expensive inventory now absorbed, margin recovery is expected from Q3FY26 onward. The impact of the MoEFCC draft notification temporarily deferred rPET granule offtake from key FMCG and beverage clients, but the expected finalization of the regulation by December should unlock pent-up demand from January 2026 (Q4FY26).

Management remains confident of a strong rebound in H2FY26, led by normalization in rPET granule demand, improved utilization at the Warangal facility (~90%+ expected by Q4FY26), and stable growth in the legacy PSF/yarn segment. The capacity expansion roadmap—adding 90,000 TPA through brownfield (Warangal, Mar 2026) and greenfield (Odisha, FY27-end) projects—positions GESL for a structural shift toward higher-margin rPET products. The company targets a product mix of ~65% chips/rPET granules and ~35% PSF/yarn by FY27, supporting sustained EBITDA margin expansion from ~10–12% currently to 15%+.

On the balance sheet front, promoter equity infusion of Rs. 1.04 bn in July 2025 underscores long-term confidence. Leverage remains comfortable with debt at ~Rs. 5.5 bn (8.5% cost), expected to peak at ~Rs. 7 bn during FY27–28. The brownfield expansion will be debt-free, funded through internal accruals.

At current levels, GESL offers a compelling play on India's formalizing circular economy and rising regulatory mandate for recycled PET content (30% in FY26 → 60% by FY29). With demand normalization, improved pricing visibility, and a strategic pivot to value-added rPET products, we expect earnings momentum to strengthen from H2FY26. Long-term growth visibility remains robust, driven by regulatory tailwinds, scale advantage, and margin-accretive product mix transformation.

We maintain our BUY rating but moderate FY26E/FY27E estimates due to slower-than-expected Warangal ramp-up and back-ended contribution from Odisha. We roll over our estimates to FY28 & we expect revenue/EBITDA/PAT/EPS CAGR of 17%/20%/16%/14% over FY25–28E and value the company at 25x Sept 27 EPS of Rs.51, arriving at a target price of Rs. 1,286 (earlier Rs.1,941).

Particulars	FY27e	FY28e	Average
Net Earnings (EPS)	42.3	60.7	51.5
Assigned P/E Multiple	25	25	25
Target Price based on PE Basis	**1,056**	**1,516**	**1,286**
CMP	978	978	978
Upside	**8%**	**55%**	**32%**

Conference Concall KTAs

Quarter Review – What Went Wrong

- **Inventory shock:** Q2 impacted by high-cost inventory booked at ~Rs 50/kg vs. market price Rs 44–45/kg, leading to ~Rs 100–110 mn loss as prices corrected sharply post-June.
- **Margin compression:** EBITDA fell 43% QoQ to Rs 223 mn; margin at 6.1% (vs. 10.8% QoQ / 14.3% YoY).
- **Regulatory drag:** MOEF draft (3-Jun-25) allowed brands to carry forward rPET usage shortfall for 3 yrs, causing F&B clients to defer orders.
- **B2B weakness:** Only ~70% of rPET granule production delivered; balance piled up as inventory, impacting cash flow.
- **Subsidiaries hit:** Volume down 10% QoQ; consolidated PAT loss Rs 5 mn vs. Rs 108 mn profit in Q1FY26.

Post-Q2 Recovery Signs

- High-cost inventory absorbed by end-Sept; fresh input cost aligned to lower PET scrap prices.
- Demand revival expected from Jan 2026 as brand commitments for rPET deliveries pick up.
- Legacy business margins guided to recover to 7–9% range by Dec–Mar quarters.
- rPET capacity utilization expected to rise to >90% from Mar 2026 as MOEF notification clears.

Capacity & Expansion Plans

- **Warangal brownfield (22,500 TPA)** – on track, commercial ops by Mar 2026; capex ~Rs 1.3 bn; revenue potential Rs 2.25–2.5 bn annually.
- **Greenfield project (~Rs 5.0 bn)** – delayed amid weak market; expected operational by FY27-end.
- Expansion to lift granule capacity to >130,000 TPA; product mix to shift to 65% rPET chips by FY28.

Management View:

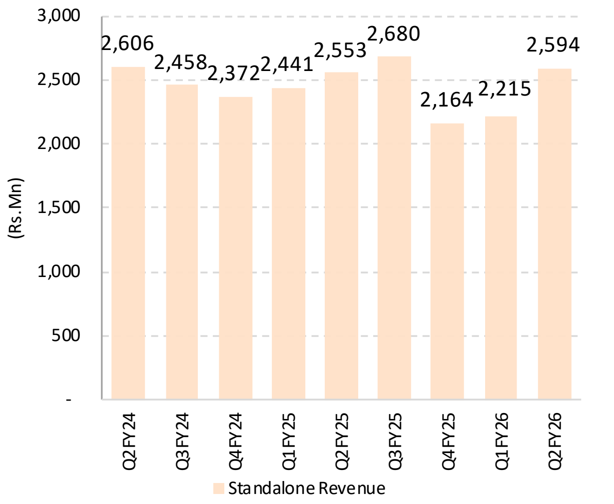
- The worst appears behind. The company expects regulatory clarity by year-end, normalization in demand from Jan 2026, and full margin recovery by March. Structural tailwinds from recycled-content mandates remain intact.

Quarterly Financials

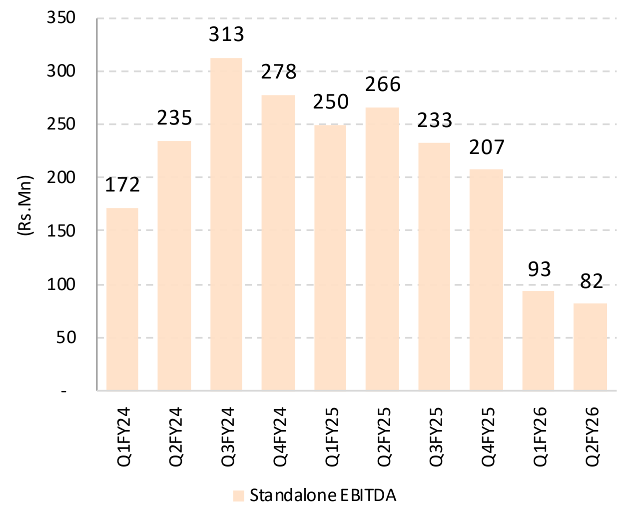
(Rs.Mn)	Q2FY26	Q2FY25	YoY Growth (%)	Q1FY26	QoQ Growth (%)
Revenue from Operations	**3,634**	**3,868**	**-6%**	**3,371**	**8%**
Other Income	53	37	42%	34	56%
Total RM Cost	2,509	2,445	3%	2,179	15%
Gross Profit	**1,125**	**1,423**	**-21%**	**1,192**	**-6%**
Employee Benefits Expense	236	216	9%	236	0%
Other Expenses	666	654	2%	593	12%
Total Expenses	3,411	3,315	3%	3,008	13%
EBITDA (Excluding Other Income)	**223**	**553**	**-60%**	**363**	**-39%**
Depreciation and Amortisation Expenses	157	135	16%	155	2%
EBIT / PBIT	**119**	**455**	**-74%**	**242**	**-51%**
Finance Costs	113	96	18%	98	15%
EBT/ PBT	**6**	**359**	**-98%**	**143**	**-96%**
Tax Expense	11	88	-88%	36	-69%
Net Profit after Tax	**(5)**	**271**	**-102%**	**108**	**-105%**
Adj Earning Per Share	(0.2)	10.7	-102%	4.2	-106%
Margins (%)			**(In bps)**		**(In bps)**
Gross Margins	31.0%	36.8%	-583	35.4%	-440
EBITDA Margins (Excl Other Income)	6.1%	14.3%	-815	10.8%	-463
PAT Margins	-0.1%	6.9%	-708	3.2%	-329
Tax Rate	192.0%	24.5%	16750	24.8%	16720
As a % to sales					
RM as a % to sales	69.0%	63.2%		64.6%	
EE Cost as a % to sales	6.5%	5.6%		7.0%	
Other exps as a % to sales	18.3%	16.9%		17.6%	

Source: Dalal & Broacha Research

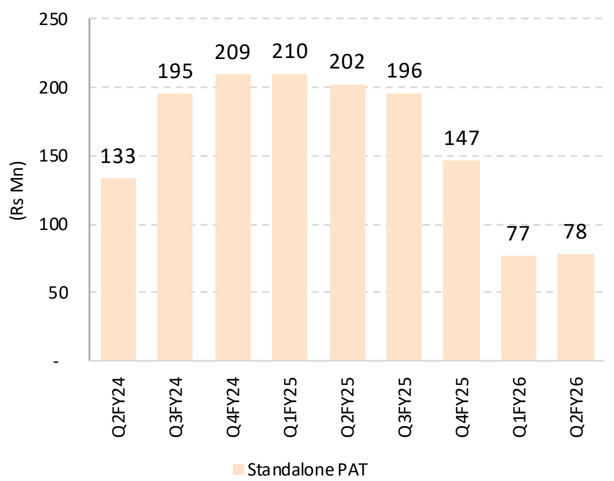
Standalone revenue



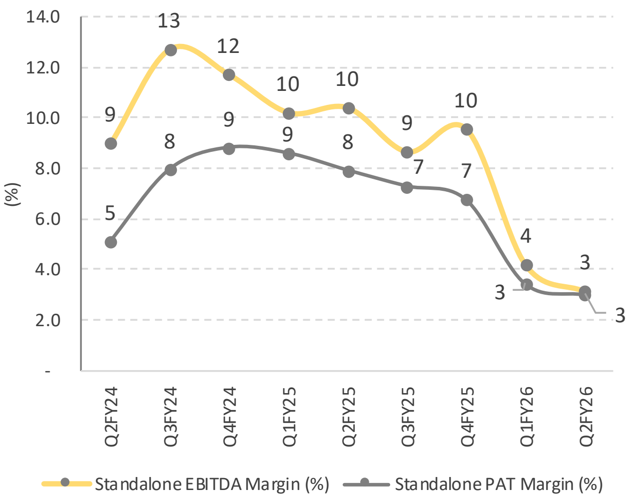
Standalone EBITDA



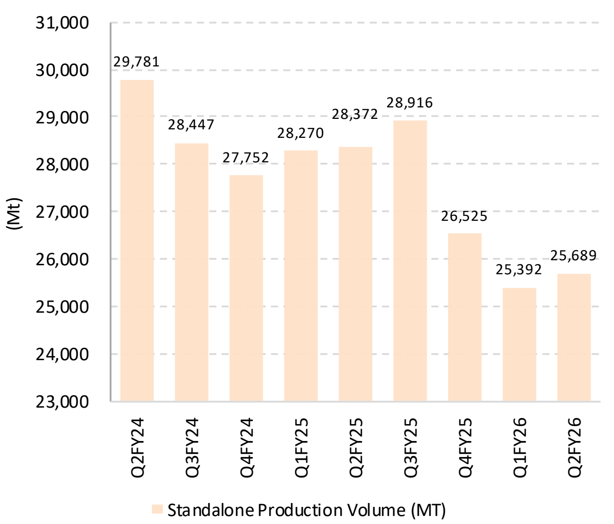
Standalone PAT



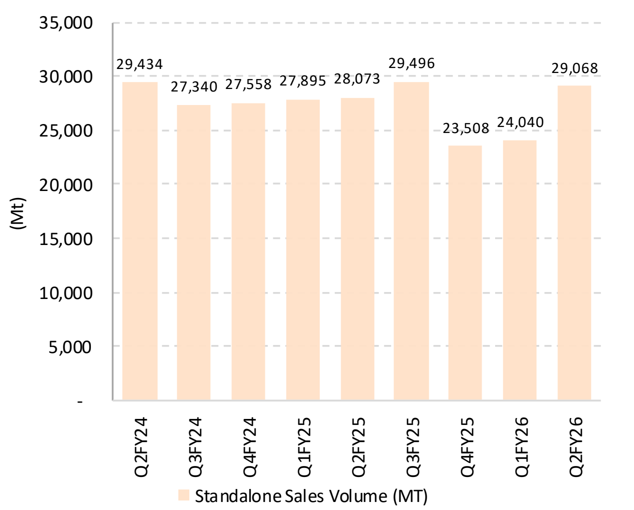
Standalone EBTIDA & PAT Margin (%)



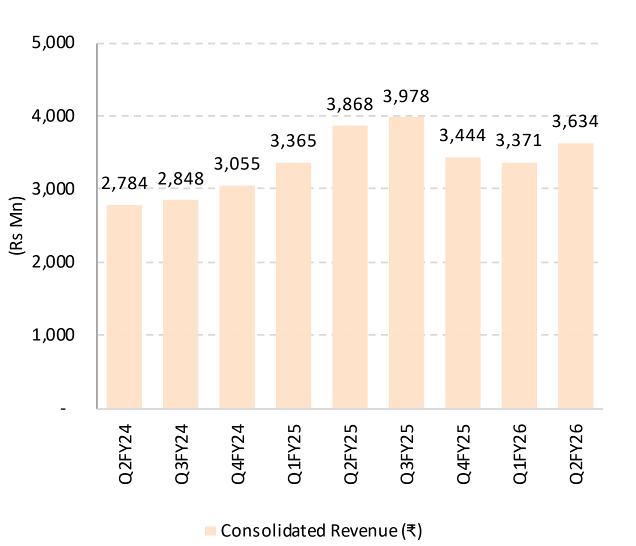
Standalone Production Volume (MT)



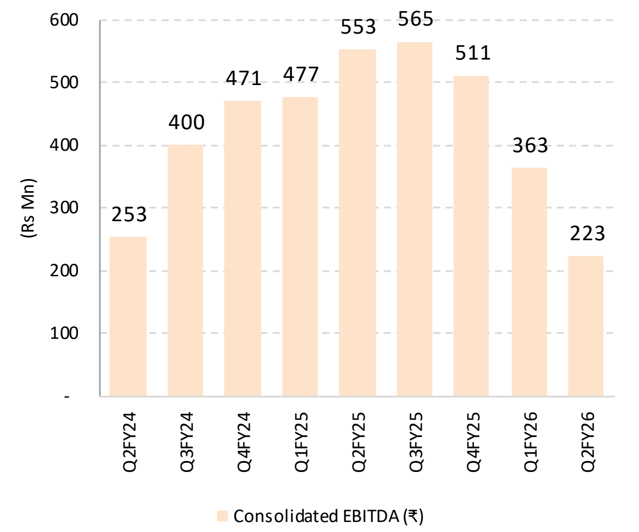
Standalone Sales Volume (MT)



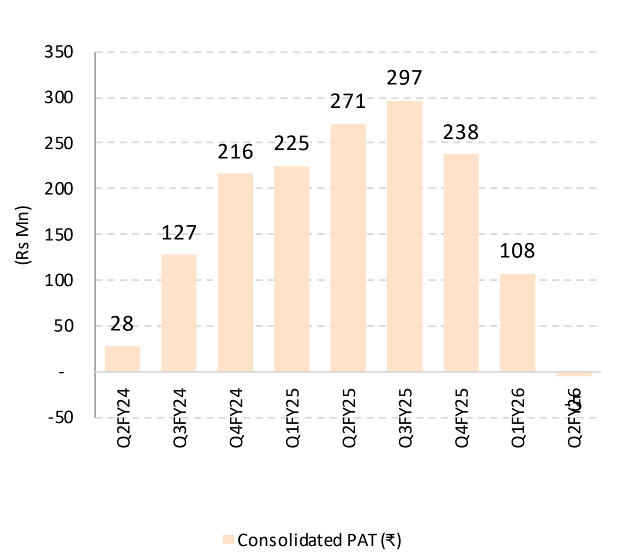
Consolidated Revenue (Rs)



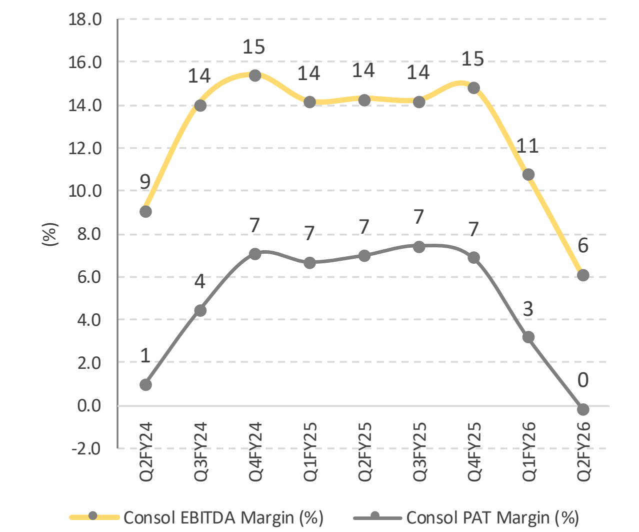
Consolidated EBITDA (Rs)



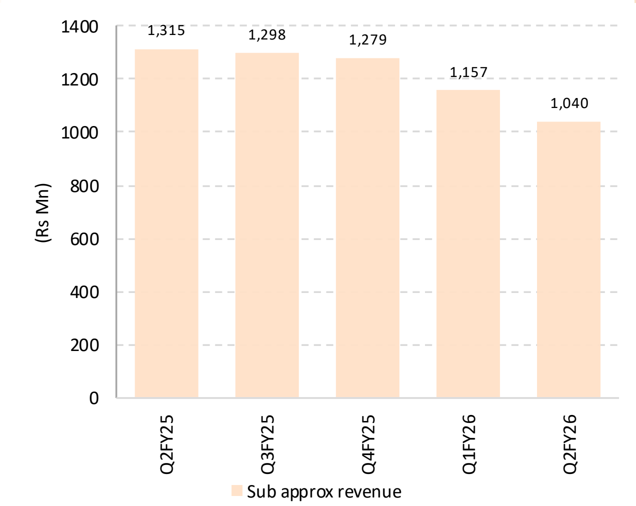
Consolidated PAT (Rs)



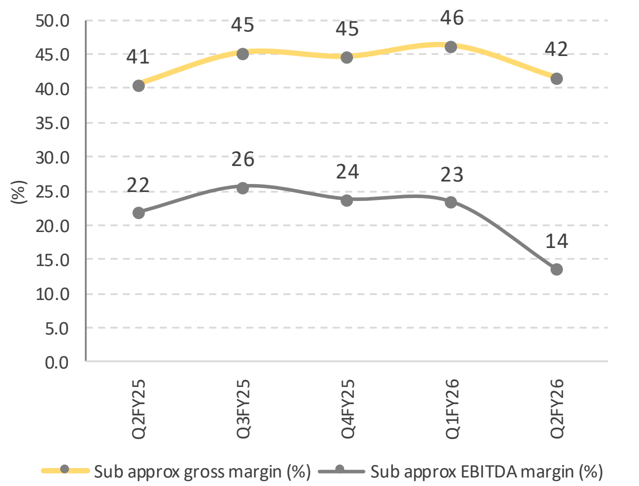
Consolidated EBTIDA & PAT Margin (%)



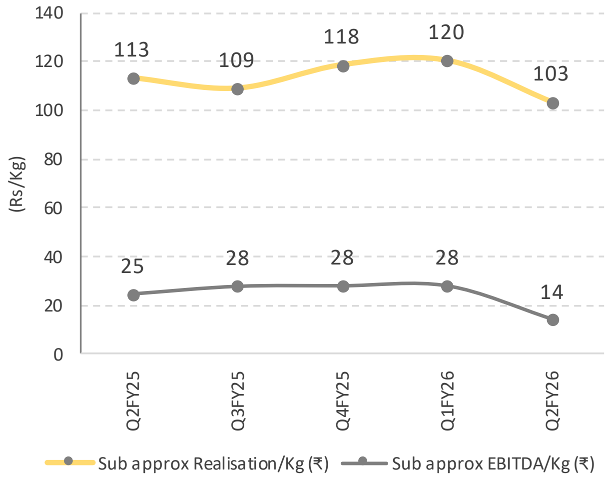
Subsidiary - Warangal Plant Approx Revenue (₹)



Subsidiary - Warangal Plant Approx Gross & EBTIDA Margin (%)



Sub - Warangal plant approx Realisation/kg & EBITDA/kg (₹)



Source: Dalal & Broacha Research, Company

Financials

P&L (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e
Net Sales	10,214	11,796	11,229	14,655	15,251	18,633	23,757
Operating Expenses	-6,572	-7,787	-6,909	-9,130	-10,066	-11,553	-14,373
Employee Cost	-579	-672	-750	-882	-990	-1,163	-1,366
Other Expenses	-1,924	-2,061	-2,191	-2,537	-2,648	-3,246	-4,408
Operating Profit	**1,139**	**1,277**	**1,378**	**2,106**	**1,547**	**2,672**	**3,610**
Depreciation	-284	-292	-487	-550	-579	-715	-956
PBIT	855	985	891	1,556	968	1,957	2,654
Other income	69	134	146	179	157	69	69
Interest	-98	-169	-449	-381	-548	-663	-680
PBT	826	950	588	1,354	577	1,362	2,043
Profit before tax	826	950	588	1,354	577	1,362	2,043
Provision for tax	-208	-251	-183	-323	-121	-252	-450
Profit & Loss from	-	-	-	-0	-	-	-
Reported PAT	619	699	406	1,031	456	1,110	1,594
MI	-	-	-	-	-	-	-
Owners PAT	619	699	406	1,031	456	1,110	1,594
Adjusted Profit	**619**	**699**	**406**	**1,031**	**456**	**1,110**	**1,594**

Balance Sheet (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e
Equity capital	218	218	253	255	263	263	263
Reserves	5,518	6,161	10,268	11,252	11,640	12,584	13,938
Net worth	**5,736**	**6,379**	**10,521**	**11,507**	**11,902**	**12,846**	**14,201**
MI	-	-	-	-	-	-	-
Non Current Liabilites	2,762	3,524	4,160	4,474	6,478	6,483	6,488
Current Liabilites	2,449	3,324	1,558	3,361	3,427	3,895	4,049
TOTAL LIABILITIES	**10,947**	**13,228**	**16,239**	**19,342**	**21,808**	**23,224**	**24,738**
Non Current Assets	6,322	7,873	8,887	10,789	11,292	16,579	15,625
Fixed Assets	5,755	7,473	8,406	9,669	10,334	15,621	14,667
Right of Use Assets	12	12	12	12	12	11	11
Financial Assets	-	59	59	203	41	41	41
Deferred Tax Asset	-	-	-	-	-	-	-
Advances	509	298	398	900	900	900	900
Assets	46	31	12	6	6	6	6
Current Assets	**4,625**	**5,355**	**7,352**	**8,553**	**10,516**	**6,645**	**9,113**
Current investments	689	486	276	200	140	70	21
Inventories	1,965	2,802	3,014	3,554	3,585	2,849	2,953
Trade Receivables	1,162	1,148	1,380	1,716	2,591	2,297	2,604
Cash and Bank Balances	230	62	1,532	1,217	2,812	-128	1,722
Advances	185	448	528	625	625	625	625
Other Financial Assets	-	-	-	-	-	-	-
Other Current Assets	395	409	623	1,240	763	932	1,188
TOTAL ASSETS	**10,947**	**13,228**	**16,239**	**19,342**	**21,808**	**23,224**	**24,738**

Cashflow (Rs mn)	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e
PBT	826	950	588	1,354	577	1,362	2,043
Depreciation	284	292	487	550	579	715	956
Net Chg in WC	-231	-835	-778	-1,460	-684	942	-513
Taxes	-235	-230	-171	-250	-121	-252	-450
Others	3	26	308	218	609	668	685
CFO	**648**	**202**	**435**	**412**	**960**	**3,436**	**2,722**
Capex	-2,766	-2,049	-1,567	-2,084	-1,245	-6,002	-2
Net Investments made	168	101	-840	932	223	70	49
Others	53	285	136	-101	-	-	-
CFI	**-2,545**	**-1,664**	**-2,272**	**-1,253**	**-1,022**	**-5,932**	**47**
Change in Share capital	-	-	3,775	85	8	-	-
Change in Debts	2,217	1,474	-1,071	1,570	2,322	386	-
Div. & Div Tax	-133	-179	-476	-389	-617	-830	-919
Others	-9	-12	0	300	-	-	-
CFF	**2,075**	**1,283**	**2,228**	**1,567**	**1,713**	**-444**	**-919**
Total Cash Generated	**178**	**-178**	**391**	**727**	**1,651**	**-2,940**	**1,850**
Cash Opening Balance	**43**	**221**	**43**	**434**	**1,161**	**2,812**	**-128**
Cash Closing Balance	**221**	**43**	**434**	**1,161**	**2,812**	**-128**	**1,722**

Ratios	FY22	FY23	FY24	FY25	FY26e	FY27e	FY28e
GM	35.7	34.0	38.5	37.7	34.0	38.0	39.5
OPM	11.2	10.8	12.3	14.4	10.1	14.3	15.2
NPM	6.0	5.9	3.6	6.9	3.0	5.9	6.7
Tax rate	-25.1	-26.4	-31.0	-23.8	-21.0	-18.5	-22.0
Growth Ratios (%)							
Net Sales	36.0	15.5	-4.8	30.5	4.1	22.2	27.5
Operating Profit	34.8	12.1	7.9	52.8	-26.5	72.7	35.1
PBIT	49.2	15.2	-9.5	74.6	-37.8	102.1	35.6
PAT	42.4	12.9	-41.9	154.1	-55.8	143.6	43.5
Per Share (Rs.)							
Net Earnings (EPS)	28.35	32.01	16.01	40.49	17.35	42.26	60.65
Cash Earnings (CPS)	41.37	45.38	35.22	62.10	39.38	69.48	97.04
Dividend	3.60	2.00	3.00	6.11	2.60	6.34	9.10
Book Value	262.77	292.21	415.08	452.01	452.94	488.85	540.41
Free Cash Flow	-98.11	-210.36	-134.87	-87.68	-22.44	-104.57	95.65
Valuation Ratios							
P/E(x)	34	31	61	24	56	23	16
P/B(x)	4	3	2	2	2	2	2
EV/EBIDTA(x)	21	20	19	14	20	13	9
Div. Yield(%)	0.37	0.20	0.31	0.62	0.27	0.65	0.93
FCF Yield(%)	-10.03	-21.51	-13.79	-8.97	-2.29	-10.69	9.78
Return Ratios (%)							
ROE	11%	12%	5%	9%	4%	9%	12%
ROCE	12%	11%	8%	11%	6%	10%	13%
RoIC	8%	8%	6%	9%	5%	8%	10%

Source: Dalal & Broacha Research, Company

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