



# Organic Recycling Systems Limited

IPO Note



IPO Details	
<b>Opening Date</b>	September 21, 2023
<b>Closing Date</b>	September 26, 2023
<b>Stock Exchange</b>	BSE SME
<b>Lot Size</b>	600 Shares
<b>Issue Price</b>	₹ 200 per share
<b>Issue Size</b>	Aggregating up to 50.00 Cr.
<b>Fresh Issue</b>	Aggregating up to 50.00 Cr.
<b>Application Amount</b>	₹ 1,20,000

IPO Objective	
1.	Reduction of the aggregate outstanding borrowings of the Company.
2.	Towards General Corporate Purpose.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	15,67,006	30.14%
Public	36,32,069	69.86%

Promoter of the Company	
1.	Sarang Bhand

Competitive Strengths	
1.	Proven Technology & Capability.
2.	Penetration into Multiple Business Verticals.
3.	Experience of Promoters and management personnel.
4.	UN Sustainability Development Goals.
5.	Lucrative Prospects of The Market.

Company Background	
○	Organic Recycling Systems Limited was incorporated in the year 2008 and has its registered office in Mumbai, Maharashtra.
○	The Company is engaged in the solutions across waste types and across the value chain.
○	Incorporated by technocrats' company's primary focus has been on developing robust, cost effective & environment friendly technologies that are simple to operate.
○	Company has proven technology and capability of successfully running one of India's first Waste to Energy (WTE) plant developed on anaerobic bio methanation technology.
○	As on the date of prospectus, the company had 36 employees on its payroll.

Market Capitalization (In Cr.)	
<b>Pre-Issue</b>	<b>Post-Issue</b>
₹ 104	₹ 154

Financial Summary (In Lacs.)			
For the Period Ended	Mar-21	Mar-22	Mar-23
<b>Total Assets</b>	1,343.89	808.86	2,550.07
<b>Net Assets</b>	10,272.67	10,669.34	11,931.09
<b>Total Borrowings</b>	5,449.89	5,418.38	6,981.41
<b>Total Revenue</b>	1,578.18	1,756.67	2,534.11
<b>Profit After Tax</b>	-449.22	-534.64	365.39

Tentative Timeline	
<b>Opening Date</b>	September 21, 2023
<b>Closing Date</b>	September 26, 2023
<b>Basis of Allotment</b>	September 29, 2023
<b>Initiation of Refunds</b>	October 03, 2023
<b>Credit of Shares to Demat</b>	October 04, 2023
<b>Listing Date</b>	October 05, 2023



## **Company Background and Analysis**

Organic recycling systems Ltd is an engineering company focused on environmental solutions and provide waste management solutions across waste types and across the value chain. Company has been a forerunner in providing sustainable waste management solutions in India since 2008. Incorporated by technocrats' company's primary focus has been on developing robust, cost effective & environment friendly technologies that are simple to operate. Company has a proven technology and capability of successfully running one of India's first Waste to Energy (WTE) plant developed on anaerobic bio methanation technology.

The anaerobic bio methanation technique has been recognized as a promising technology as per National Master Plan issued by Government of India, company has also set up a MSW processing and disposal plant in Solapur, Maharashtra to convert Municipal Solid Waste (MSW) into electricity and compost. The plant has been operational since 2013 with the plant being recognized as one of the case studies for best practices for MSWM under the Swachh Bharat Mission and various other reports. With the data collected over the years, company is now a front runner for various EPC opportunities in the country and therefore providing solutions encompassing entire value chain for waste management.

Company operates in three business verticals, and they are mentioned below: -

1. Project developer & Technology Licensing with Engineering Procurement and Construction (EPC) division – Company have agreements with Urban local bodies to develop projects and technology on BOOT and PPP Model and providing technological and engineering support through its EPC vertical.
2. Product Vertical – Product vertical is engaged in designing and supplying certain key equipment required to set up MSW projects. Company's plan is to augment the offering by acquiring exclusive marketing rights / manufacturing rights for other key equipment related to MSW processing.
3. Consulting vertical – Company has an experienced and specialized team which will enable it to foray into providing consultancy and project management services and has a vertical to carry out R&D activities for development and implementation of future technologies as well as provide contract research services to various industries in the environmental sector.

Company has four fully owned subsidiaries, which the company uses for specific purpose as given below: -

1. Solapur Bio-energy Systems Private Limited – The company was incorporated to engage in the construction, development and maintenance of Municipal Solid Waste to Energy project at Solapur
2. Organic Waste (India) Private Limited – The company was incorporated as the SPV to engage in the construction, development and maintenance of Municipal Solid Waste to Energy project at Bangalore.
3. Meerut Bio-energy Systems Private Limited – The company was incorporated as the SPV to engage in the construction, development and maintenance of Municipal Solid Waste to Energy project at Meerut.
4. Pune Urban Recyclers Private Limited – The subsidiary was incorporated as the SPV to engage in the Construction, Development and Maintenance of Municipal Solid Waste-to-Energy project at Pune.

To conclude, the company operates in business segment with good prospect and the company have also shown a decent growth in revenue.



## **Business Strategies**

- Taking Leverage of existing operational projects, company continues to bid for new opportunities in MSW sector so as to selectively consolidate BOOT portfolio in consortium with city gas distribution companies or private developers creating hybrid EPC opportunity.
- Continue to bid for direct EPC opportunities through public tenders floated by PSU's mandated to set-up MSW to CBG projects under SATAT Guidelines.
- Create technology licensing opportunities with private developers for setting up Codi gestion projects based on Agro feedstocks.
- Expand regional footprint by partnering with localised developers/ city gas distribution companies/ integrated waste management companies.
- Create backward and forward integration by collaborating, acquiring, licensing technologies for feedstock management, gas purification and compression, retail pumps, EV charging stations so as to create an integrated platform across green fuel value chain.
- Create manufacturing facility to manufacture critical components, manage supply & servicing of proprietary equipment and localisation of licensed technology so as to improve margins in the value chain.
- Creation of consulting vertical through acquisition, so as to provide consulting services as owner's engineers / Lender's engineers and other engineering services, feasibility studies / TEV studies to financial institutes, other project developers ensuring fair, transparent & arm's length contracts without creating conflict of interest.
- Capitalize on the growth opportunities in the MSW management sector by continued focus on developing, providing and executing technologies and services

## **Competitive Scenario and Peer Mapping**

### **Competition**

The company operates in a highly competitive market and facing competition from both national and local bodies. Most of company's contracts are won through a competitive bidding process. Its competition varies depending on the size, nature and complexity of the project and on the geographical region in which the project is to be executed. There is relatively less barrier to entry. The bargain power of the company is high.

### **Peer Analysis**

As per the offer document, there is no listed competitor for the company.



## Industry Overview

### Exhibit 1: Indian Waste Management Market



(Source: researchandmarkets.com)

### Exhibit 2: Global Waste Management Market Size



(Source: alliedmarketresearch.com)



### **Waste Management in India**

Waste management in India falls under the purview of the Union Ministry of Environment, Forests and Climate Change (MoEF&CC). In 2016, this ministry released the Solid Wastage Management (SWM) Rules, which replaced by the Municipal Solid Waste (Management and Handling) Rules, and 2000 of which had been in place for 16 years. This national policy plays a significant role in the acknowledgement and inclusion of the informal sector (waste pickers) into the waste management process for the first time.

India generates 62 million tonnes of waste each year. About 43 million tonnes (70%) are collected, of which about 12 million tonnes are treated, and 31 million tonnes are dumped in landfill sites.

With changing consumption patterns and rapid economic growth, it is estimated that urban municipal solid waste generation will increase to 165 million tonnes in 2030

### **Services offered in Industry**

By 2025, the waste management market size in India is projected to be worth ~USD 15 billion, with annual growth around 7 percent.

A growing economy, soaring urban population, rising living standards and increasing consumption levels are common trends in emerging economies across the globe. Similarly, in India, an increase in the purchasing power parity has led to more affordability, accessibility to resource use and a rapid surge in the waste volumes as well. Considering the current trend toward urbanization in India, the MSW quantum is expected to double the existing volumes within ten years. At approximately 80-85 MTs by 2030, presenting a business opportunity estimated at US\$20 Billion

### **Public-private partnership initiatives**

Public-private partnerships (PPP) have been promoted by the Government of India for improving waste management services, yet, have remained problematic. The challenges of improving solid waste management services in India are caused by lack of financial resources, lack of appropriate skills and technological competencies with the public sector. Governments have started to explore PPPs as an alternative. The progress and improvement achieved remained low. Research on this has suggested recommendations in accordance with some issues uncovered. For example, PPP in MSW is considered immature, yet, high pre-qualification requirements were established. The urban local bodies (ULBs) found difficulties in defining an appropriate scope for some PPP projects. The specific issue encounters include a dire need of services are the primary reason behind opting for PPP mode; the perception that PPP gives greater benefit to the public; third and interconnected: PPPs avoid financial stress on the public sector; and fourth, PPPs are thought to constrain transaction costs and give value for the money invested. The research also revealed some serious negative issues that have crept-in while using PPP mode. They are often procured in an incompetent manner, and as opposed to the expectation, they have resulted in high transaction costs and ineffective projects. The private sector appeared to be exploiting the sector without any beneficial projects. There are numerous facets that are yet to be understood while using PPP in the waste management sector.

(Source: wikipedia.org)





### Key Managerial Personnel

**Sarang Bhand**, aged 41 years, is Managing Director and Promoter of the Company with an experience of 17 years. He has a bachelor's degree in Marketing from Symbiosis University, Graduate Certificate of Management from Chifley Business School, SCPM - Stanford Certified Project Manager from Stanford Center for Professional Development. He has been involved in project implementation, project planning, securing funding, stakeholder management, monitoring projects & securing compliances for ongoing projects.

**Yashas Bhand**, aged 33 years, is the Chief Executive Officer and Whole-time director of the Company. He is a M.Tech in (Biotechnology) with Post graduate diploma in Business law and entrepreneurship from The West Bengal National University of Juridical Sciences, Kolkata. He has completed Solid Waste Management Planning Certification from UNESCOs- IHE, Delft, Netherlands. As a seasoned professional he has been instrumental in carrying various in-house R&D activities. He drives a team for developing training modules, and implementing workshops for officials, consultants and other stakeholders in the waste management sector Since 2016, he has been also heading new Technology development team and Operation department of the Company. He played a key role in the development of the decentralization of the bio-gas technology.

**Amit Karia**, aged 37 years, is an Independent Director of the Company. He is a member of the Institute of Company Secretaries of India (ICSI), New Delhi. He is a member of the Institute of Cost and Management Accountants of India (ICAI –Cost), Kolkata, Qualified Masters in Laws (LLM), a merit holder and university topper for two out of three years in LLB examination. Author of several books on law with the first book being published by Bharat Law House, New Delhi. He has overall experience in legal and compliance areas of more than 11 years.

**Rakesh Mehra**, aged 71 years, is the Chairman and Independent Director of the Company. He is a Graduate in Science and Associate Member of the Indian Institute of Bankers and Fellow Member of Institute of Cost and Management Accountants of India. He has been associated with Madhya Pradesh State Industrial Development Corporation Ltd. (MPSIDC) in various senior positions and was head of the “Project Finance Division” and financial resource planning. He has vast experience in Finance and Investment activities including takeover, merger, investment planning etc.

**Janaki Bhand**, aged 38 years, is the Woman Director of the Company. She is a practicing psychologist for more than 10 years. She is a gold medallist in BA Psychology from IEHE, Bhopal. She has done her MA in Clinical Psychology from MSU Baroda and PG Diploma in Guidance and Counselling from Fergusson Collage, Pune. She is also a REBT practitioner and has earned her Certificate from Albert Ellis Institute, India.

To conclude, the promotor and the CEO of the company has a good experience in the industry that company operates in, the remaining directors also have decent knowledge and experience in the different industry and in the fields which will help in the growth of the business.


**Financial Snapshot**

<b>Profit and Loss Statement</b>				(In Lacs.)
Particulars	FY 21	FY 22	FY 23	
Revenue from Operations	1,252.38	1,461.37	2,471.93	
Other Income	325.80	295.30	62.18	
<b>Total Income</b>	<b>1,578.18</b>	<b>1,756.67</b>	<b>2,534.11</b>	
<b>Expenses</b>				
Direct expense	774.97	687.25	526.08	
Changes in inventories of Finished Goods and WIP	11.99	-16.85	28.00	
Employee benefits expense	227.70	275.40	359.06	
Finance costs	131.42	152.74	187.95	
Depreciation and Amortization expense	644.69	595.99	495.82	
Other expenses	236.63	596.78	471.52	
<b>Total Expenses</b>	<b>2,027.40</b>	<b>2,291.31</b>	<b>2,068.43</b>	
<b>Earnings Before Interest, Taxes, Depreciation &amp; Amortization</b>	<b>1.09</b>	<b>-81.21</b>	<b>1,087.27</b>	
<b>EBITDA Margin</b>	<b>0.09%</b>	<b>-6%</b>	<b>44%</b>	
<b>Profit/(Loss) before exceptional items and tax</b>	<b>-449.22</b>	<b>-534.64</b>	<b>465.68</b>	
Less: Exceptional Items	-	-	-	
<b>Profit/(Loss) before tax</b>	<b>-449.22</b>	<b>-534.64</b>	<b>465.68</b>	
<b>Tax Expense</b>				
Current Year	-	-	-82.56	
Deferred tax	-	-	-17.73	
<b>Total Tax Expense</b>	<b>-</b>	<b>-</b>	<b>-100.29</b>	
<b>Profit/(Loss) for the year</b>	<b>-449.22</b>	<b>-534.64</b>	<b>365.39</b>	
<b>Net Profit Margin</b>	<b>-28%</b>	<b>-30%</b>	<b>14%</b>	

<b>Balance Sheet</b>				(In Lacs)
Particulars	FY 21	FY 22	FY 23	
<b>EQUITY AND LIABILITIES</b>				
<b>1. Shareholders' funds</b>				
(a) Share Capital	45.78	45.78	535.67	
(b) Reserves and surplus	1,298.11	763.08	2,014.40	
<b>Total Equity</b>	<b>1,343.89</b>	<b>808.86</b>	<b>2,550.07</b>	
<b>2. Non-current liabilities</b>				
(a) Long-term borrowings	4,668.90	4,676.00	6,703.71	
(b) Other Non-current Liabilities	1,199.57	453.75	453.75	
(c) Long-term provisions	39.56	43.40	48.01	
<b>Total Non-current liabilities</b>	<b>5,908.03</b>	<b>5,173.15</b>	<b>7,205.47</b>	
<b>3. Current liabilities</b>				
(a) Short-term borrowings	780.99	742.38	277.70	
(b) Trade payables				
(i) Due to MSME	667.20	739.42	733.69	
(ii) Due to Others	167.98	125.01	118.36	
(c) Other current liabilities	1,401.25	3,077.02	1,041.88	
(d) Short-term provisions	3.35	3.52	3.94	
<b>Total Current liabilities</b>	<b>3,020.77</b>	<b>4,687.35</b>	<b>2,175.57</b>	
<b>Total Liabilities</b>	<b>8,928.80</b>	<b>9,860.50</b>	<b>9,381.04</b>	
<b>Total Equity and Liabilities</b>	<b>10,272.69</b>	<b>10,669.36</b>	<b>11,931.11</b>	
<b>ASSETS</b>				



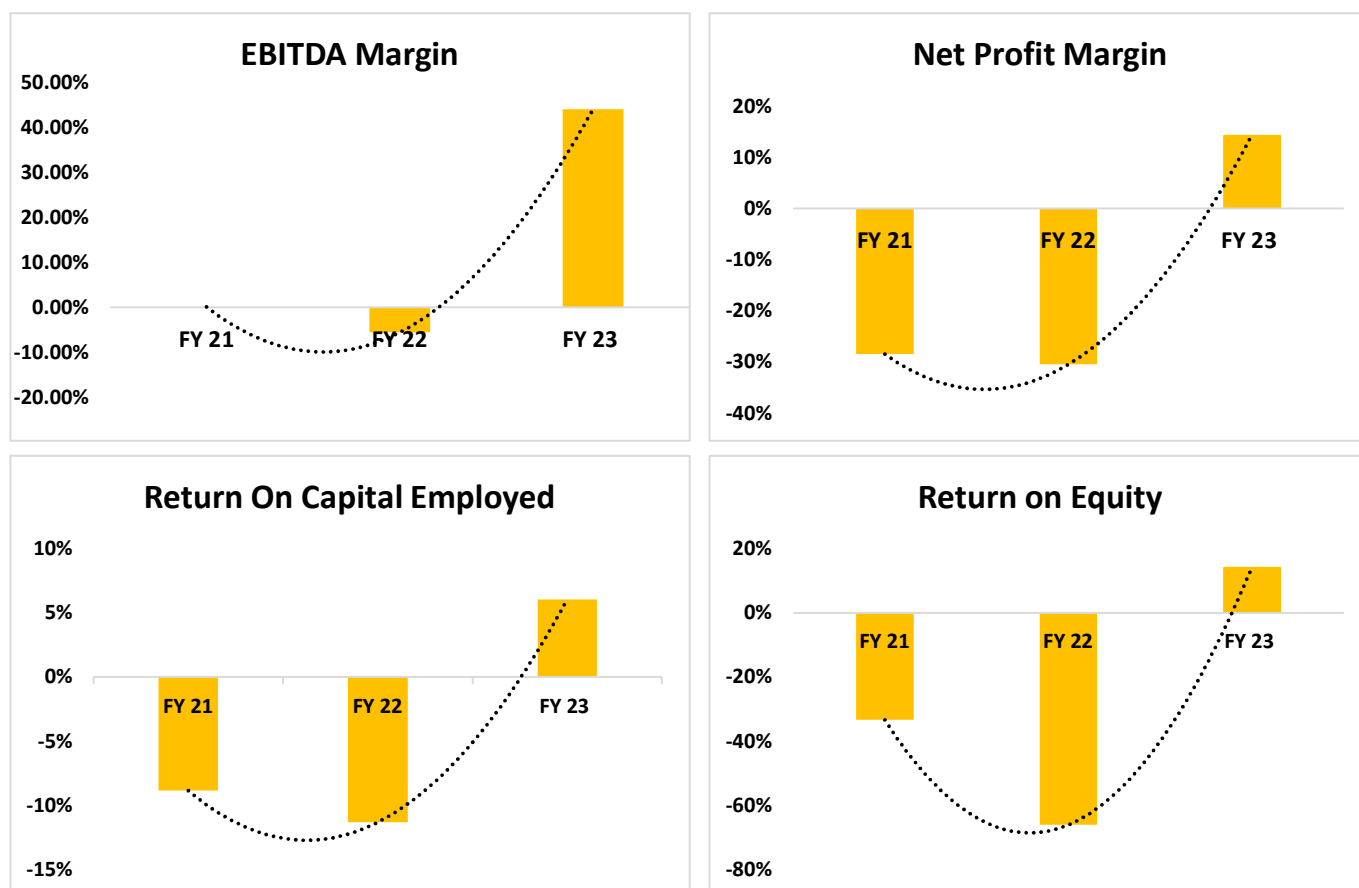
<b>Balance Sheet</b>				(In Lacs)
<b>1. Non-current assets</b>				
(a) Property Plant & Equipment's and intangible assets				
(i) Tangible assets	6,745.00	6,352.53		5,928.41
(ii) Goodwill on Consolidation	104.85	93.81		93.81
(iii) Intangible Assets	13.72	7.37		1.09
(iv) Capital work in progress	13.98	13.98		13.98
(v) Intangible Assets under development	293.09	604.52		1,015.29
(b) Non-current investments	0.48	0.10		0.10
(c) Deferred tax assets (net)	748.55	748.55		730.82
(d) Long-term loans and advances	102.82	79.60		16.04
(e) Other Non-Current Assets	359.76	405.29		310.75
<b>Total Non-Current assets</b>	<b>8,382.25</b>	<b>8,305.75</b>		<b>8,110.29</b>
<b>2. Current assets</b>				
(a) Inventories	106.76	120.36		89.70
(b) Trade receivables	1,452.19	1,998.93		3,128.40
(c) Cash and cash equivalents	92.15	26.99		22.98
(d) Short-term loans and advances	239.30	217.08		131.39
(e) Other Current Assets	0.02	0.23		448.33
<b>Total Current assets</b>	<b>1,890.42</b>	<b>2,363.59</b>		<b>3,820.80</b>
<b>Total Assets</b>	<b>10,272.67</b>	<b>10,669.34</b>		<b>11,931.09</b>

<b>Cash Flow Statement</b>				(In Lacs)
Particulars	FY 21	FY 22	FY 23	
Net Cash Flow from Operating Activities	-22.15	783.98	-2,370.47	
Net Cash Flow from Investing Activities	-350.00	-667.77	-385.98	
Net Cash Flow from Financing Activities	443.76	-184.47	2,752.45	
<b>Ratio Sheet</b>				
Particulars	FY 21	FY 22	FY 23	
<b>Per Share Data</b>				
Diluted EPS	-10.15	-12.09	7.83	
BV per share	17.45	10.51	33.12	
<b>Operating Ratios</b>				
EBITDA Margins	0.09%	-6%	44%	
PAT Margins	-28%	-30%	14%	
Inventory days	31.11	30.06	13.24	
Debtor days	423.23	499.26	461.93	
Creditor days	916.65	1,892.16	5,166.08	
<b>Return Ratios</b>				
RoCE	-9%	-11%	6%	
RoE	-33%	-66%	14%	
<b>Valuation Ratios (x)</b>				
EV/EBITDA	6,148.28	-76.35	8.75	
Market Cap / Sales	12.30	10.54	6.23	
P/E	-	-	25.54	
Price to Book Value	11.46	19.04	6.04	
<b>Solvency Ratios</b>				
Debt / Equity	4.06	6.70	2.74	
Current Ratio	0.63	0.50	1.76	
Quick Ratio	0.59	0.48	1.71	
Asset Turnover	0.12	0.14	0.21	
Interest Coverage Ratio	-4.90	-4.43	3.15	





## Financial Charts



## Key Risk Factors

1. There are 77 outstanding legal proceedings amounting to Rs. 5,612.67 lakhs excluding unascertainable amount involving the Company, its Subsidiaries, Directors and promoter. Any adverse decision in such proceedings may have a material adverse effect on business, results of operations and financial condition of Group Company.
2. Company dependent on municipal authorities for a substantial proportion of its business and revenues. Many Municipalities have been struggling to fund various solid waste management projects from their own revenue receipts and are highly dependent on state/central grants/budget allocation. Any decline in the budgetary allocation towards MSW projects will have a material adverse impact company's business, financial condition, and results of operations.
3. MSW projects are typically awarded to the company on satisfaction of prescribed pre-qualification criteria and following a competitive bidding process. Business and the financial condition may be adversely affected if new MSW projects are not awarded to the company.
4. Company has incurred losses in the previous years.
5. Company has and have had experienced negative cash flows in the past amounting to Rs. -2,370.47 lakhs and Rs. -22.15. Any such negative cash flows in the future could affect business, results of operations and prospects.
6. The company have certain contingent liabilities amounting to Rs. 1090.92 lakhs, which if they materialize, may adversely affect the business, financial condition, and results of operations.



### **Track Record of Lead Manager**

The lead manager to the issue is **Arihant Capital Markets Limited**.

As per the offer document the lead manager of this issue has not handled any Public Issues during the past three financial years.



### **Recommendation**

The company have experienced decent growth with respect to the various financial indicators and improvement in the balance sheet position in the last three Fiscals, i.e., company has also seen an increase in its net worth. Whereas, the company has only been profitable in the last fiscal.

The management outlook of the company is good, with a proper bifurcation of the roles and responsibilities of its top management.

The P/E on an annualised and Post IPO basis is around 42.14 times which seems to be highly priced looking at the performance and size of the company.

The business segment in which the company operates has good. Whereas, there are many litigations pending on the company and its promoter, which can have a major impact on the company. With fresh issue the company's post ipo shareholding of the promoter will fall further down to 20.35%, which is not a good indicator. Also, after looking at the company's financial performance and at the given PE company is highly priced, therefore it is recommended to **AVOID** applying for this IPO.



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