

**Funds to be raised:
INR 270 Mn**

The company specializes in converting waste tires into valuable products like rubber chips, rubber crumb, rubber fiber, and steel. They are in Lavacha, Vapi, Gujarat, and their primary business is recycling waste tires. The company procures raw materials from both domestic and imported sources. The recycling process involves several key steps: contamination removal, chips production, crumb production, and steel cleaning. The final products are then packaged and dispatched to various industries, where they are used in applications such as playgrounds, floor mats, athletic turf, and construction materials. The company has an installed capacity of 85,000 metric tons per annum and plans to expand its operations through continuous pyrolysis technology. The company aims to capitalize on the growing rubber recycling sector in India and increase its revenue and profit.

Capacity Expansion

Rubber Chips Processing Unit: The company plans to install a new unit to increase its installed capacity from 6,000 MT to 10,000 MT per month, which is expected to boost revenue and achieve economies of scale.

Crumb Rubber Production Line: The plan is to commission a new line to convert surplus granules into crumb rubber, which will minimize raw material waste and increase profitability by tapping into premium applications like athletic surfaces and floor mats.

Advanced Steel Cleaning System: This system will process recovered steel to produce high-grade, clean steel for resale, unlocking new revenue channels.

Shredder Unit: The integration of a shredder unit aims to reduce input costs by efficiently shredding both domestic and imported waste tires.

Business Model

- The company's current business model involves procuring scrap tires from domestic and imported sources.
- The manufacturing process uses a Trommell machine to remove contaminants and a Rasper machine to process the non-contaminated tires.
- The company's future vision is to install a continuous pyrolysis plant to produce higher-margin by-products like pyrolysis oil and recovered carbon black, which will provide additional revenue streams and access to broader market segments.
- The company's products are used by various industries for applications such as playgrounds, floor mats, athletic turf, and construction materials.
- To manage market risk and secure sales, the company's strategy includes building pre-negotiated contracts and strong partnerships with customers.

Outlook & Valuation: The company is expanding rubber chips capacity from 6,000 MT to 10,000 MT by FY26E. The company also commissioning crumb rubber production line to convert surplus granules into value added crumb rubber. The company is deploying advanced cleaning systems to recover steel and produce high grade clean steel to re-sale in the secondary steel market. The company is integrating shredder unit to reduce input cost by allowing efficiency shredding of waste tyres. The pyrolysis plant would improve the revenue and margins going forward. The formal recycling sector processes 4,50,000 MT of the 1.5 Mn MT of End-of-Life tires generated annually. We anticipate, the company revenue & PAT of INR 1,885 Mn & INR 323 Mn by FY27E. The business is available at 10.7x of FY27E PAT and can be 3-4x play over the next 2-3 years.

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Growth Drivers

- **Vertical Integration:** The company's vision is to install a continuous pyrolysis plant to recover valuable by-products such as pyrolysis oil and carbon black. This transition from a batch to a continuous process is expected to improve throughput, energy efficiency, and profitability.
- **Value-Added Products:** Company intends to diversify into higher-margin products by commissioning a crumb rubber production line and an advanced steel cleaning system. These initiatives will create new revenue channels and enhance the net recovery value from recycled materials.
- **Cost Optimization:** The integration of a shredder unit will reduce input costs, while the planned solarization of the entire plant will address power costs, a major operational expense.
- **Raw material sourcing:** The company sources its raw materials, mainly used tires, from both imported and domestic channels.
- **Import Operations:** The majority of the company's raw materials (60%) are imported from the US and UK through a promoter company, SVKL. The cost of the tires is almost zero, with the primary expense being freight. SVKL imports at approximately INR 11/kg and sells to the company at INR 11.25/kg, making a profit of about 1%. The transportation cost from the ports to the plant is about INR 1/kg.
- **Domestic Procurement:** The remaining 40% of raw materials are purchased domestically, with prices about INR 1/kg higher than the imported costs.

Particular (INR Mn)	FY25	FY26E	FY27E
Revenue	343	1,487	1,885
EBITDA	47	274	384
EBITDA Margin (%)	13.7%	18.4%	20.4%
PAT	35	243	323
PAT Margin (%)	10.2%	16.3%	17.1%

Source: Company, Aриhant Capital Research

Fund raising details

- The company is seeking an equity investment of INR 270 Mn and company's valuation is estimated at INR 3,500 Mn to fund its expansion plans.
- **The competitor companies are trading 30-40x in the listed markets. We anticipate, the company should be valued at Par with the industry, post listing and can be 3-4x play over the next 2-3 years**

Funds utilization

Expansion & Technology: To augment its capacity by acquiring advanced machinery. This will allow the company to enter into value-added products with higher margins.

Product Diversification: The funds will be used to support the production of furnace oil through continuous pyrolysis and recovered carbon black, which will lead to higher realizations for crumb and steel, broader market segments, and additional revenue streams.

Sustainability Initiatives: The investment will help the company ensure compliance with the guidelines from the Ministry of Environment, Forest and Climate Change and other government recycling mandates.

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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