

RETAIL EQUITY RESEARCH

Rossari Biotech Limited.

Specialty chemicals

Sensex: 36,594

Nifty: 10,768

SUBSCRIBE

Price Range Rs. 423 - Rs. 425

A niche player...margin expansion support rich valuation

Rossari Biotech Limited (RB) is one of the leading manufacturer of specialty chemicals in India with a diversified product profile of 2,030 products. Also largest manufacturer of textile specialty chemicals in India. Its main product categories include; (a) Home, personal and performance chemicals, (b) textile specialty chemicals and (c) animal health and nutritional products. RB has presence in 17 foreign countries including Vietnam, Bangladesh and Mauritius.

- RB is a leading specialty chemicals manufacturing company in India with product range includes Home/Personal care(HPPC), Poultry and apparel industry.
- The company manufactures most of its products in-house from its facility at Silvassa, union territory of Dadra and Nagar Haveli.
- HUL, IFB Industries & Arvind Ltd are some of its key customers.
- Company witnessed Revenue/ PAT growth of 43% /60% CAGR over FY18-20.
- The revenue from sale of HPPC constituted 46.8% of the total revenue in FY20 segment has been positively impacted with higher demand for disinfectants & sanitizers.
- Current capacity is at 120000 MTPA with 82% utilization while new facility setting up Dahej at Gujarat with a proposed installed capacity of 132,500 MTPA and is expected to start operations in FY21, which will support revenue growth.
- Post IPO, cash flow of the company expects to improve with reduced debt and capex getting completed by FY21.
- At the upper price band of Rs425, RB available at P/E of 33.8x FY20 which seems expensive when compared to peers. However, considering RoE at ~44% (last 3-year Avg.), strong revenue growth and expanding margin profile support our 'SUBSCRIBE' rating for long term perspective.

Purpose of IPO

The Offer consists of Fresh Issue and Offer for Sale. The company intends to utilize the net proceeds from fresh issue for the repayment of Rs65cr, working capital requirements and general corporate purposes.

Key Risks

- Lack of long term agreement with key customers.
- Uncertainty in relation to continuing effect of the Covid-19.
- Losing market share to cheaper imports from other countries.

Peer Valuation

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE (%)	P/E	EV/EBITDA
Rossari Biotech	2,207	600	11.8	13	31.8	33.8	21.8
Galaxy Surfactants	5,531	2,596	14.2	65	23.6	24.1	15.8
Aarti Industries	16,331	4,186	23.1	31	19.1	31.0	18.3
Vinati organics	10,293	1,028	40.0	32	28.6	32.0	24.3
Atul Limited	13,731	4093	21.6	225	22.7	21.0	14.6

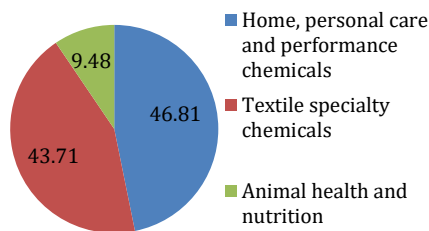
Source: Geojit Research, Bloomberg; Valuations of Rossari Biotech are based on upper end of the price band, Financials as per FY20

Issue Details			
Date of Opening	13 th July, 2020		
Date of Closing	15 th July, 2020		
Total no. of Shares offered(cr)	1.2		
Post Issue No. of shares (cr)	5.2		
Price Band	Rs. 423- 425		
Face Value	Rs. 2		
Bid Lot	35 shares		
Minimum application for retail (upper price band for 1 lot)	Rs. 14,875		
Maximum application for retail (upper price band for 13 lot)	Rs. 1,93,375		
Listing	BSE & NSE		
Lead Manager	Axis Capital Ltd, ICICI Securities Ltd.		
Registrars	Link Intime India Pvt Ltd.		
Issue size (upper price)			
Fresh Issue	50		
OFS	446.2		
Total Issue	496.2		
Shareholding (%)			
	Pre Issue	Post Issue	
Promoters	95	73	
Others	5	27	
Total	100	100	
Issue structure			
	Allocation %	Size Rs.cr	
Retail	35	173.7	
Non -Institutional	15	74.4	
QIB	50	248.1	
Total	100	496.2	
Y.E March (Rs cr)			
	FY18	FY19	FY20
Sales	292	516	600
Growth (%)	-	76.7	16.2
EBITDA	43	78	105
Margin%	14.6	15.0	17.5
PAT Adj	25	46	65
Growth (%)	-	79.8	42.8
EPS	5	9	13
P/E (x)	86.9	48.3	33.8
EV/EBITDA	52.4	28.6	21.8
RoE (%)	58.3	43.3	31.8

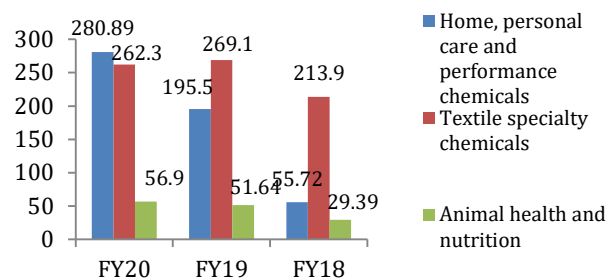
Company Description

Rossari Biotech Limited (RB) was incorporated as a partnership firm in 2003 as 'Rossari Labtech'. In 2009, the firm was converted to a joint stock company under the name of 'Rossari Biotech Limited'. RB operates in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius. According to the F&S Report they are the largest manufacturer of textile specialty chemicals in India. The business is organized in three main product categories – (i) home, personal care and performance chemicals; (ii) textile specialty chemicals; and (iii) animal health and nutrition products. As on May 31, 2020, RB had a range of 2,030 different products sold across the three product categories.

Revenue Mix (%)



Segment wise revenue (Rs.cr)



Source: RHP, Geojit Research

Key strengths of the company...

- **Diversified product portfolio & strong distribution network**

RB caters to FMCG, apparel, and poultry and animal feed industries through diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. In the home, personal care and performance chemicals category, RB currently manufactures and sells over 366 products in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries with diverse products under each of these verticals. In the textile specialty chemicals segment, company covers the entire gamut of products for the entire life-cycle of textile – starting from specialty chemical required for yarn dyeing, yarn lubricants to thread production, dyeing auxiliaries, garment finishing and printing ~1,543 products in the textile specialty chemical sector. RB's diversified portfolio of products reduces the risk of over-dependency on any specific product or industry segment. The customer base of the company currently comprises a host of multinational, regional and local companies. RB's Pan-India distribution network has over 204 distributors as on May 31, 2020.

- **Largest textile specialty chemical manufacturer in India**

RB is the largest manufacturer of textile specialty chemicals in India. The global textile specialty chemicals market is expected to grow at a CAGR of 4% (by value) from 2018 to 2023. The F&S Report predicts that while Europe and North America are expected witness sluggish growth in the textile specialty chemicals market, the Asia-Pacific region which accounts for more than half the world's consumption of textile specialty chemicals, will drive the future growth supported by the lower production costs and latest technologies. Further, Indian textile specialty chemicals market is also expected to grow at a CAGR of 12% from 2018 to 2023 (Source: F&S Report).

- **Extensive manufacturing and technical capabilities**

RB manufactures majority of the products in-house from the Silvassa Manufacturing Facility with an installed capacity of 120,000 MTPA. The annual capacity utilization of Silvassa Manufacturing Facility has moved from 74.19% in FY18 to 93.94% in FY19 and to 82.46% in FY20. RB is setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500. The Dahej Manufacturing Facility will also enjoy a proximity to the deep-water, multi-cargo port of Dahej which is a cost and logistical advantage and will be commissioned in FY21.

- **Strong R&D capabilities with focus on innovation and sustainability**

RB has two R&D facilities – one within the Silvassa Manufacturing Facility and another one in Mumbai. The R&D covers all the three aspects of the products – synthesis research, formulation and development, and technical service. Regional branch office in Surat also has a R&D support laboratory which provides localized and expedient technical support to the customers in that region.

- **Robust financial performance**

In FY20, FY19 and FY18, RB generated total revenue of Rs. 603.82cr, Rs.517.12cr and Rs. 300.43cr, respectively, EBITDA of Rs.104.53cr, Rs.77.63cr and Rs.42.63cr, respectively and net profit after tax of Rs.65.25cr, Rs.45.68cr and Rs. 25.4cr, respectively. The company reported Return on Net Worth of 31.79%, 43.32% and 34.08% with a total debt to equity ratio of 0.23 for FY20, FY19 and FY18, respectively, and a Return on Capital Employed of 24.79%, 50.93% and 34.68% for FY20, FY19 and FY18, respectively. As on March 31,2020, the long term borrowings, as per the Restated Financial Statements, were Rs.33.96 cr (excluding current maturities of long term borrowings).

- **Collaboration with BUZIL**

RB has entered into a joint venture with Buzil, a German company which offers solutions for institutional cleaning, hygiene and disinfection. The joint venture is called Buzil-Rossari Private Limited. RB has also entered into the Technology License Agreement for manufacturing specialty chemicals for institutional cleaning, hygiene and disinfection which are primarily sold to institutional customers such as facility management services, hotels, airports, corporates, malls, hospitals and educational institutions. Buzil-Rossari is responsible for the marketing and sale of this product amongst customers in India and other SAARC countries.

Industry Outlook

• Global Specialty Chemical Industry

Based on value addition, the chemicals industry can be classified into two broad segments - basic and specialty. In general, basic chemicals are high-volume and low-value products that are sold to other industries for processing further. They are usually manufactured in continuous process plants and there is no major product differentiation across several manufacturers. Sales of basic chemicals are largely driven by price. However, specialty chemicals are low-volume and high-value products which are sold on the basis of their quality or utility, rather than composition. Thus, they may be used primarily as additives or to provide a specific attribute to the end product. Specialty chemicals are more likely to be prepared and processed in batches. The focus is on value addition to the end-product and the properties or technical specifications of the chemical. The global specialty chemicals market is expected to grow at 5.4% CAGR.

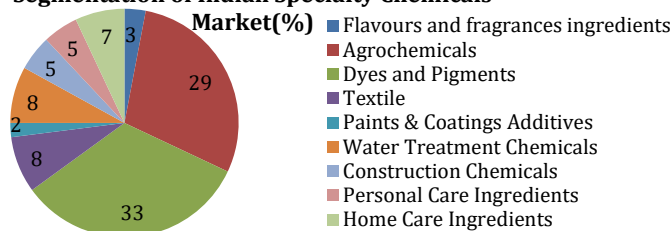
• Indian Specialty Chemical Industry

The specialty chemicals industry is driven by both domestic consumption and exports. Home and personal care chemicals, water chemicals, construction chemicals, etc. are areas where specialty chemicals find applications. Exports are on the rise as India is becoming a central manufacturing hub for such chemicals.

• Segmentation of Indian Specialty Chemicals Market by Industry and Application Type, Value (USD Bn), 2018

Indian Specialty Chemicals Market worth USD 21.9 billion in 2018. Segments in which Rossari Biotech Ltd. has Presence is 35% of the Specialty chemicals market in India.

Segmentation of Indian Specialty Chemicals



Source: RHP, Geojit Research

• Indian HPPC Industry

The Indian home care ingredients market was valued at USD 1.2 billion in 2015 and it grew to USD 1.6 billion in 2018 registering a CAGR of 10.8%. Within homecare market, the household segment accounts for the majority share owing to large population base of the country leading to higher consumption of homecare products in home. The industrial and institutional segment accounts for less than 20% of the total market. Fabric care is a major category accounting for 68% of the household care sector. Non-automatic detergents, such as hand-wash detergents and bars, are the most popular forms.

• Indian Textile Chemical Market

India is the second largest exporter of textiles globally. Textile chemicals, used for the processing stage of textiles, and are generally classified as auxiliaries and colorants. *Auxiliaries* Chemicals which are used throughout the textile manufacturing process to provide specific characteristics to the fabric – Coating & Sizing Chemicals, De-sizing Agents, Surfactants, Yarn Lubricants, Finishing Agents. *Colorants* Chemicals which are used to impart color to the textile product – Dyes and Bleaching Agents. The Indian textiles industry is expected to reach USD 250 billion by 2019. Indian domestic apparel market size is expected to grow from about USD 70 billion in 2018 to USD 118 billion in 2023, growing at a CAGR of 11%.

• Animal Health and Nutrition Industry

Indian Animal and Pet Nutrition Ingredients market is one of the world's fastest growing feed additives market. The Indian market for animal and pet nutrition ingredients in 2018 was estimated at about USD 0.25 billion. Amino acids accounted for a share of 56.7% in 2018 in the India animal and pet nutritional ingredients market, followed by vitamins/carotenoids. Poultry segment dominates in terms of the demand for feed additives in the region, with a market share of 48% in 2018. The sector is expected to record a CAGR of 6.5% until 2023.

As per the USDA's recent estimates, India ranks first in terms of cattle inventory.

Promoter and promoter group

Mr. Edward Menezes and Mr. Sunil Chari are the Promoters of the Company. The Promoters hold an aggregate of 42,708,140 Equity Shares, comprising 84.15% of the pre-Offer issued, subscribed and paid-up Equity Share capital of the Company.

Brief Biographies of Directors

- **Mr. Edward Menezes** is the Executive Chairman of the Company. He was a founder of the Company and has been a member of the Board since incorporation of the Company. He has over 25 years of experience in the specialty chemicals industry and has more than ten years of experience in different roles within the Company and has been actively involved in the day-to-day running of the Company.
- **Mr. Sunil Chari** is the Managing Director of the Company. He was a founder of the Company and has been a member of the Board since incorporation of the Company. He has over 20 years of experience in the specialty chemicals industry
- **Mr. Goutam Bhattacharya** is an independent director of the Company.
- **Ms. Meher Castelino** is an independent director of the Company.

Consolidated Financials

Profit & Loss Account

Y.E March (Rscr)	FY18	FY19	FY20
Sales	292	516	600
% change	-	76.7	16.2
EBITDA	43	78	105
% change	-	82.1	34.9
Depreciation	5	12.3	16.9
EBIT	37	65	88
Interest	1	2.9	4
Other Income	1	0.9	3.7
Exceptional Items	-	-	0
PBT	37	63	88
% change	-	69	38.6
Tax	12	18	22.6
Tax Rate (%)	32.2	27.9	25.7
Reported PAT	25	46	65
Adj	-	-	-
Adj PAT	25	46	65
% change	-	79.8	42.8
No. of shares (cr)	5.19	5.19	5.19
Adj EPS (Rs)	5	9	13

Cash Flow

Y.E March (Rscr)	FY18	FY19	FY20
PBT	37	63.4	87.8
Non-cash adj.	6.35	16.8	18
Changes in W.C	(18.3)	(9.0)	(51.2)
C.F.O	25.6	71.2	54.6
Capital exp.	(14)	(44.0)	(76)
Change in inv.	(7)	6.94	(14)
Sale of investment	0	0	0
Other invest.CF	0	1	(101)
C.F - investing	(20)	(36)	(190)
Issue of equity	0	0	0
Issue/repay debt	(5)	(16.4)	63
Dividends paid	(0)	(11)	(3)
Other finance.CF	(1)	(2.1)	96
C.F - Financing	(6)	(29.1)	156.9
Chg. in cash	(1.36)	5.61	21.3
Closing cash	0.62	5.74	29.1

Balance Sheet

Y.E March (Rscr)	FY18	FY19	FY20
Cash	0.6	6	29.2
Accounts Receivable	62	85.9	94.1
Inventories	35	55	58.2
Other Cur. Assets	5	12	27.7
Investments	8	4	122.9
Net Fixed Assets	50.9	75.1	88.8
CWIP	2.4	2.8	21.7
Intangible Assets	0.0	6.0	4.8
Other Assets	1.3	4.2	23.7
Total Assets	165	250	471
Current Liabilities	46	108	105
Provisions	2	2	2
Debt Funds	28	14	77
Minority Interests	0	0	0
Def. Tax	2	2	1
Equity Capital	4	4	10
Reserves & Surplus	83	119	277
Shareholder's Fund	87	124	287
Total Liabilities	165	250	471
BVPS (Rs)	17	24	55.2

Ratios

Y.E March	FY18	FY19	FY20
Profitab. & Return			
EBITDA margin (%)	14.6	15.0	17.5
EBIT margin (%)	12.8	12.7	14.6
Net profit mgn.(%)	8.7	8.8	10.9
ROE (%)	58.3	43.3	31.8
ROCE (%)	45.8	37.8	27.1
W.C & Liquidity			
Receivables (days)	77	52	55
Inventory (days)	64	48	55
Payables (days)	55	53	62
Current ratio (x)	2.29	1.47	3.10
Quick ratio (x)	1.34	0.85	1.18
Turnover & Levq.			
Net asset T.O (x)	5.7	8.2	7.3
Total asset T.O (x)	1.8	2.5	1.7
Int. covge. ratio (x)	27.6	22.7	24.7
Adj. debt/equity (x)	0.3	0.1	0.3
Valuation ratios			
EV/Sales (x)	0.1	0.0	0.1
EV/EBITDA (x)	52.4	28.6	21.8
P/E (x)	86.9	48.3	33.8
P/BV (x)	25.3	17.8	7.7

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We, Mithun T Joseph and Rajeev T author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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(ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

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