

**Rating: Subscribe**

**Issue Offer**

**Fresh Issue of equity shares upto Rs 50 Cr and OFS of 1,05,00,000 shares by Promoters group taking the total issue size at Rs 496 cr**

**Issue Summary**

|                            |               |
|----------------------------|---------------|
| Price Band (Rs)            | 423-425       |
| Face Value (Rs)            | 2             |
| Implied Market Cap (Rs Cr) | 2,207         |
| Market Lot                 | 35            |
| Issue Opens on             | July 13, 2020 |
| Issue Close on             | July 15, 2020 |
| No. of share pre-issue     | 5,07,52,920   |
| No. of share post issue    | 5,19,29,391   |
| Listing                    | NSE / BSE     |

**Issue Break-up (%)**

|                |    |
|----------------|----|
| QIB Portion    | 50 |
| NIB Portion    | 15 |
| Retail Portion | 35 |

**Book Running Lead Managers**

Axis Capital Ltd  
ICICI Securities Ltd

**Registrar**

Link Intime India Private Limited

**Shareholding Pattern**

|                 | Pre-Issue | Post-Issue |
|-----------------|-----------|------------|
| Promoters       | 95.1%     | 72.7%      |
| Public & Others | 4.9%      | 27.3%      |

**Objects of the issue**

- Company will utilise Rs 65 cr to repay the debt
- Rs 50 cr will be utilised for Working capital
- General corporate purpose

Rossari Biotech (RBL) is one of the leading specialty chemicals manufacturing Company in India catering to FMCG, apparel, poultry and animal feed industries. Product portfolio of the Company is categorized mainly into three categories i) Home, personal care and performance chemicals (HPPC) ii) Textile specialty chemicals (TSC) iii) Animal health and Nutrition products. Company operate its business in India as well as 17 foreign countries. As on 31<sup>st</sup> May, 2020, it had a range of 2,030 different products sold across the three product categories.

**Key Highlights**

**Diversified Product Portfolio:** Company has wide range of product portfolio into HPPC, Textile chemical and Animal healthcare segment. Revenue from this segments stood at 46.8%, 43.7% and 9.5% respectively as on FY20.

**Capacity Expansion to drive growth going forward:** At present, Company has a manufacturing facility at Silvassa with a total installed capacity of 120,000 MTPA. Company manufactures majority of its products in its Silvassa facility. Capacity utilization of its Silvassa manufacturing facility has moved up from 74.2% in FY18 to 82.5% in FY20. Company is setting up another manufacturing facility at Dahej with a proposed installed capacity of 132,500 MTPA which will be fully operational by March 2021. With this new facility, Company's capacity will be more than double the current capacity which will drive the growth going forward.

**Strong R&D capabilities with focus on innovation and sustainability:** Company has two R&D facilities at Silvassa and Mumbai with a dedicated team of 22 employees. R&D team focuses on the development of new products and formulations. Company has spent Rs 9.8 cr towards R&D as of FY20.

**Strong Financial Performance:** Company has recorded strong financial performance with revenue CAGR of 42% CAGR and PAT CAGR of 60% over the period of FY18-FY20. Company has a total debt of Rs 61 cr as on FY20. However, post this issue it will become debt-free company. Revenue from exports stood at 11% as on FY20.

**Wide Range of Network:** Company has wide distribution network of 204 distributors as on May, 2020. It has wide network of 22 distributors spread over 9 states for HPPC segment. In the textile specialty chemicals, it sells the products through a network of 109 distributors spread over 13 states in India and through 19 overseas distributors spread over 16 countries including in the USA, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey.

**Valuation and View:**

**At upper price band of Rs 425, issue has been offered at P/E of 33x to its FY20 EPS of Rs 13, which is little bit expensive than its peers. However, Considering its debt-free status (post-issue), diversified product portfolio with sharp capacity expansion with low leverage coupled with strong margin and best fixed assets turnover ratio we have a positive outlook on the company's growth prospects. Due to rising demand for hand sanitizers, disinfectants, cleaning chemical manufactured by Rossari, its business performance has boomed. Thus, We recommend investors to 'Subscribe' for this issue.**

## Product Portfolio of the Company

**Diversified Product Portfolio:** Company has strong product portfolio categorized into three categories.

- A) Home, personal care and performance chemicals (HPPC):** Under HPPC segment company has product range of over 300 products. In this category company manufactures cleaning chemical formulations for hospitality, products for its customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. This segment contributes 46.8% of the total revenue as on FY20. HPPC is the main focus area for the company.
- B) Textile Specialty Chemicals (TSC):** In this segment, Company manufactures over 1,543 products like chemicals catering to the entire value chain from fiber, yarn to processing, dyeing, finishing etc. Revenue from textile segment stood at 43.7% as on FY20 which had reduced from 71.5% in FY18.
- C) Animal health and Nutrition:** Company manufactures over 100 products under this segment. Poultry feed supplements, pet grooming and pet treats including for weaning infants these are the product portfolio in this segment. Revenue share from Animal health portfolio stood at 9.5% as on FY20.

## Revenue by Segment

| Particulars (in Cr.)          | FY20       |             | FY19       |             | FY18       |             |
|-------------------------------|------------|-------------|------------|-------------|------------|-------------|
|                               | Revenue    | %           | Revenue    | %           | Revenue    | %           |
| - Home, Personal Care         | 281        | 46.8%       | 195        | 37.9%       | 56         | 18.6%       |
| - Textiles                    | 262        | 43.7%       | 269        | 52.1%       | 214        | 71.5%       |
| - Animal Health and Nutrition | 57         | 9.5%        | 52         | 10.0%       | 29         | 9.8%        |
| <b>Total Revenue</b>          | <b>600</b> | <b>100%</b> | <b>516</b> | <b>100%</b> | <b>299</b> | <b>100%</b> |

## Financial Performance

| Particulars (in Cr.) | FY20 | FY19 | FY18 |
|----------------------|------|------|------|
| Revenue              | 600  | 516  | 299  |
| EBITDA               | 105  | 78   | 43   |
| EBITDAM(%)           | 17%  | 15%  | 14%  |
| PAT                  | 65   | 46   | 25   |
| PATM (%)             | 11%  | 9%   | 8%   |
| EPS (as calculated)  | 12.9 | 9.4  | 5.3  |
| Net Worth            | 287  | 124  | 87   |
| Total Debt           | 61   | 4    | 20   |
| Total Assets         | 472  | 250  | 165  |
| ROE (%)              | 23%  | 37%  | 29%  |
| ROCE (%)             | 25%  | 51%  | 35%  |

## Peer Group Comparison

| Company (in Cr.)                   | CMP        | Revenue    | EBITDA     | EBITDA M (%) | PAT       | D/E         | EPS         | RoE (%)       | P/E         |
|------------------------------------|------------|------------|------------|--------------|-----------|-------------|-------------|---------------|-------------|
| <b>Rossari Biotech<sup>^</sup></b> | <b>425</b> | <b>600</b> | <b>105</b> | <b>17%</b>   | <b>65</b> | <b>0.21</b> | <b>12.9</b> | <b>22.76%</b> | <b>33.1</b> |
| Aarti Industries                   | 934        | 4,621      | 977        | 21%          | 536       | 0.61        | 30.8        | 18.89%        | 30.4        |
| Vinati Organics                    | 1,018      | 1,029      | 414        | 40%          | 334       | 0.00        | 32.5        | 28.65%        | 31.3        |
| Atul Ltd                           | 4,702      | 4,093      | 902        | 22%          | 671       | 0.03        | 224.7       | 22.70%        | 20.9        |
| Galaxy Surfactants                 | 1,579      | 2,596      | 375        | 14%          | 230       | 0.30        | 65.0        | 24.70%        | 24.3        |
| Fine Organics Industries           | 1,955      | 1,038      | 241        | 23%          | 165       | 0.15        | 53.8        | 27.45%        | 36.3        |

Financials are as on FY20; <sup>^</sup> at upper price band

## Management

| Board of Directors    | Description   |
|-----------------------|---|
| <b>Edward Menezes</b> | Edward Menezes is the Promoter and Executive Chairman of the Company. He was a founder of the Company. He holds a bachelor's degree in science (chemistry major) from K. J. Somaiya College of Science, University of Bombay. 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. |
| <b>Sunil Chari</b>    | Sunil Chari is the Promoter and Managing Director of the company. He was a founder of the Company. He has over 20 years of experience in the specialty chemicals industry. He has more than 10 years of experience in different roles within the company.   |
| <b>Manasi Nisal</b>   | Manasi Nisal is the CFO of the Company. She had joined the company on November 12, 2019. Previously, she was associated with Huechem Textiles Private Limited as a General Manager - Accounts & Finance.  |

## Covid-19 Impact on Company's Business

Government had announced nation-wide lockdown on March 24, 2020 and imposed several restriction. However, Company is engaged into manufacturing of disinfectants and sanitizers as part of its home, personal care and performance chemicals, were categorized under the 'essential goods' and its Silvassa Manufacturing Facility was not shut down during this pandemic.

However, due to limited availability of labour, logistics and supply chain constraints, its plant was operating at sub-optimal capacity utilization in the month of April. They continued their manufacturing activities after making arrangements to meet the government's requirements on sanitization, people movement and social distancing. In view of the nationwide lockdown announced by the Government of India to control the spread of COVID-19, its business operations were temporarily disrupted from March 24, 2020. Since then, Company has resumed operations in a phased manner as per the Government of India and state government's directives. Its plant utilization has improved, raw material suppliers have resumed operations and supply and logistics have become more regular.

Amidst the Covid-19 pandemic, we believe demand for Rossari's HPPC segment products will remain high going forward.

## Key Risks

- **Dependency on large institutional customers:** Majority of Company's revenue comes from institutional customers in the TSC and HPPC product categories. Revenue from this both segment constituted 90.5% of the total revenue as on FY20. Revenue from its top five customers across product categories constituted 43.95% of the total revenue as on FY20. So, reliance on a limited number of customers for the business brings concentration risks for the company.
- Increase in the cost of raw materials can have significant adverse effect on company's profitability.
- Competition from existing players and new entrants and consequent pricing pressure also pose material adverse impact on business operation.

## Major Customers

| Segment  | Customers   |
|--|---|
| <b>FMCG Companies</b>                                      | <ul style="list-style-type: none"> <li>• RSPL Ltd (Ghadi detergent);</li> <li>• IFB Industries Ltd</li> <li>• Hindustan Unilever Ltd</li> <li>• BSH Household Appliances Manufacturing Pvt Ltd</li> <li>• CICO Technologies Ltd</li> <li>• Rentokil Initial Hygiene India Pvt Ltd</li> <li>• Millennium Papers Pvt Ltd</li> </ul> |
| <b>Apparel and Textile Companies</b>                       | <ul style="list-style-type: none"> <li>• Arvind Ltd</li> <li>• Ashnoor Textile Mills Ltd</li> <li>• Bhaskar Industries Pvt Ltd</li> <li>• European Textile Chemical Corporation;</li> <li>• Shahi Exports Pvt Ltd</li> </ul>  |
| <b>Poultry Feed, Animal Feed or Food-Service Companies</b> | <ul style="list-style-type: none"> <li>• Hitech Hatch Fresh Pvt Ltd</li> <li>• Gokul Poultry Industries</li> <li>• Sarvottam Poultry Feed Supply Centre Pvt Ltd</li> <li>• Sneha Farms Pvt Ltd</li> </ul>   |

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

| Head Office   | Registered Office  |
|---|--|
| #1011, Solitaire Corporate Park<br>Building No. 10, 1 <sup>st</sup> Floor<br>Andheri Ghatkopar Link Road<br>Chakala, Andheri (E)<br>Mumbai – 400093<br>Tel: (91-22) 42254800<br>Fax: (91-22) 42254880 | Arihant House<br>E-5 Ratlam Kothi<br>Indore - 452003, (M.P.)<br>Tel: (91-731) 3016100<br>Fax: (91-731) 3016199 |

| 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%           |

| Research Analyst<br>Registration No. | Contact                        | Website  | Email Id   |
|--------------------------------------|--------------------------------|--|--|
| <b>INH000002764</b>                  | <b>SMS: 'Arihant' to 56677</b> | <a href="http://www.arihantcapital.com">www.arihantcapital.com</a> | <a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a> |

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880