

10 July 2020

## Rossari Biotech

*Formulations and applications experts. Subscribe*

Issue Price: ₹423-425

[Subscribe](#)

**Leading manufacturer of specialty chemicals:** A leading specialty chemicals manufacturer in India, Rossari Biotech provides customised solutions for specific industrial and production requirements for the FMCG, apparel, poultry and animal feed industries through a diversified product range comprising home- and personal-care, and performance chemicals, textile chemicals and animal health and nutrition products.

**Capacity expansion, focus on advanced specialty intermediates:** On 30<sup>th</sup> Sep'19 Rossari had 100,000 tpa specialty chemical manufacturing at Silvassa. In H2 FY20, it added 20,000 tons. Further, it is coming out with another 132,500 tpa at Dahej expected to be complete by Mar'21. This last has modern technologies for greater efficiency, which would help in optimum utilisation of power, maximising the amount of movement in liquid handling automatically and mechanising the powder operations (charging and bagging).

**Financials.** Over FY17-20, it reported revenue, EBITDA and PAT CAGRs of respectively ~37%, 63% and 66%. Its EBITDA margin expanded 724bps to 17.5%. Net debt/equity in FY20 was 0.36x compared to 0.04x in FY19 due to debt-based funding of capex. The RoE and RoCE averaged ~36% each over FY17-20. The working-capital cycle shortened from 60 days in FY17 to 25 days in FY19, then increased to 34 days in FY20.

**Valuation.** At the higher end (₹425 a share) of the issue band, the stock is valued at ~19.9x EV/EBITDA and ~33.1x P/E on FY20 figures. Galaxy, Atul and Fine organics trade at FY20 P/E multiples of 24.3x, 20.7x and 36.3x respectively while Aarti Industries and Vinati Organics trade at 30-31x. We believe this multiple is within the range of the sector average and due to growth prospects on the greater capacity and increase in demand for the products. The high return ratios coupled with the proof of concept in the historic growth rates provide further comfort. **Risks:** Downturn in textile industry, great dependence on a few customers and delay in capex

Key data	
IPO issue date	13th– 15th July'20
Face value	₹2
Lot size	35 shares
Issue price	₹423-425
IPO issue size-OFS	₹4.5bn
No. of shares-OFS	10.5m
Fresh issue size	₹500m
No. of shares – Fresh issue	1.2 m
QIB	Up to 50%
Retail	35%
Non-institutional	15%

Shareholding pattern (%)	Pre-IPO	Post-IPO
Promoter	95.1	72.7
Non-promoter group	4.9	27.3
Total	100	100

Key financials (YE Mar)	FY17	FY18	FY19	FY20
Sales (₹ m)	2,350	2,922	5,162	6,001
Net profit (₹m)	143	254	457	653
EPS (₹)	2.8	5.0	9.0	12.9
PE (x)	151.0	84.9	47.2	33.1
EV / EBITDA (x)	90.9	50.9	27.8	19.9
PBV (x)	34.8	24.8	17.4	7.5
RoE (%)	23.1	34.1	43.3	42.0
RoCE (%)	22.4	34.7	50.9	34.2
Dividend yield (%)	0.1	4.7	1.2	0.1
Total debt / equity (x)	0.4	0.2	0.0	0.4

Source: RHP

**Nav Bhardwaj**  
Research Analyst

**Bhawana Israni**  
Research Associate

Anand Rathi Share and Stock Brokers Limited (hereinafter "ARSSBL") is a full-service brokerage and equities-research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient. Disclosures and analyst certifications are present in the Appendix.

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY17	FY18	FY19	FY20
Net revenues	2,350	2,922	5,162	6,001
<b>Growth (%)</b>	-	<b>24.3</b>	<b>76.7</b>	<b>16.2</b>
Direct costs	1,700	1,977	3,393	3,717
SG&A	409	519	993	1,236
<b>EBITDA</b>	<b>240</b>	<b>426</b>	<b>776</b>	<b>1,047</b>
<b>EBITDA margins (%)</b>	<b>10.2</b>	<b>14.6</b>	<b>15.0</b>	<b>17.5</b>
- Depreciation	43	52	123	169
Other income	12	14	9	37
Interest expenses	21	14	29	36
PBT	187	375	634	881
<i>Effective tax rate (%)</i>	23.7	32.2	27.9	25.7
+ Associates / (Minorities)	-	-	-	(2)
<b>Net income</b>	<b>143</b>	<b>254</b>	<b>457</b>	<b>653</b>
<b>Adjusted income</b>	<b>143</b>	<b>254</b>	<b>457</b>	<b>653</b>
WANS	51	51	51	51
<b>FDEPS (₹ / sh)</b>	<b>2.8</b>	<b>5.0</b>	<b>9.0</b>	<b>12.9</b>
<i>FDEPS growth (%)</i>	-	77.8	79.8	42.8
<i>Gross margins (%)</i>	27.6	32.3	34.3	38.1

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY17	FY18	FY19	FY20
PBT	187	375	634	881
+ Non-cash items	43	52	123	169
Oper. prof. before WC	231	426	757	1,049
- Incr. / (decr.) in WC	(148)	(99)	114	(311)
Others incl. taxes	(15)	(72)	(159)	(190)
<b>Operating cash-flow</b>	<b>67</b>	<b>256</b>	<b>712</b>	<b>548</b>
- Capex (tang. + intang.)	39	139	440	759
Free cash-flow	28	116	272	(211)
Acquisitions				
- Div. (incl. buyback & taxes)	-	3	106	26
+ Equity raised	-	-	-	5
+ Debt raised	(8)	(49)	(164)	629
- Fin investments	-	69	(69)	181
- Misc. (CFI + CFF)	(21)	(10)	(15)	(1)
<b>Net cash-flow</b>	<b>(1)</b>	<b>(14)</b>	<b>56</b>	<b>215</b>

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY17	FY18	FY19	FY20
Share capital	44	44	44	102
Net worth	620	871	1,238	2,867
Debt	250	209	45	669
Minority interest	-	-	-	-
DTL / (Assets)	8	20	18	5
<b>Capital employed</b>	<b>878</b>	<b>1,101</b>	<b>1,301</b>	<b>3,541</b>
Net tangible assets	443	509	751	888
Net intangible assets	0	0	60	48
Goodwill	-	-	-	-
CWIP (tang. & intang.)	3	24	28	218
Investments (strategic)	-	-	-	44
Investments (financial)	-	69	-	135
Current assets (ex cash)	840	1,037	1,599	2,110
Cash	22	10	60	1,272
Current liabilities	431	549	1,197	1,174
Working capital	409	489	402	937
<b>Capital deployed</b>	<b>878</b>	<b>1,101</b>	<b>1,301</b>	<b>3,541</b>

**Fig 4 – Ratio analysis**

Year-end: Mar	FY17	FY18	FY19	FY20
P/E (x)	151.0	84.9	47.2	33.1
EV / EBITDA (x)	90.9	50.9	27.8	19.9
EV / Sales (x)	9.3	7.4	4.2	3.5
P/B (x)	34.8	24.8	17.4	7.5
RoE (%)	23.1	34.1	43.3	42.0
RoCE (%)	22.4	34.7	50.9	34.2
DPS (₹ / sh)	-	0.5	20.0	5.0
Dividend yield (%)	0.1	4.7	1.2	0.1
Dividend payout (%) - incl. DDT	-	1.5	34.6	4.8
Total debt / equity (x)	0.4	0.2	0.0	0.4
Receivables (days)	76	75	61	57
Inventory (days)	33	42	39	35
Payables (days)	49	54	75	59
Cash Conversion Cycle (days)	60.0	63.0	25.0	33.0
CFO : PAT %	47.0	100.7	155.8	84.0

Source: Company, Anand Rathi Research

## Salient features of the issue

- The offer: ₹4,963m
- Offer for sale: 10.5m equity shares of ₹2 each - size: ₹4.5bn
- Fresh issue: 1.17m equity shares of ₹2 each - size : ₹500m
- Listing: on the BSE and the NSE
- Issue size: ₹4,942m–4,963m
- Price band: ₹423–425
- Bid lot: 35 shares and then in multiples thereof
- Post-issue implied market cap: ₹21.97bn–22.07bn
- BRLMs: Axis Capital, ICICI Securities
- Registrar: Linkin Time India Pvt. Ltd
- Issue opens: 13<sup>th</sup> Jul'20
- Issue closes: 15<sup>th</sup> Jul'20
- Indicative timetable

Activity	Approximate Date
Finalisation of Basis of Allotment	20-07-2020
Refunds / Unblocking ASBA Fund	21-07-2020
Credit of equity shares to DP A/c	22-07-2020
Trading commences	23-07-2020

- Issue break-up

Category	No. of shares	₹m	% of issue
QIB*	5,841,016–5,838,234	2,447.8–2,481.2	50
NIB	1,752,305–1,751,471	741.2–744.4	15
Retail	4,088,712–4,086,765	1,729.5–1,736.9	35
Total	11,682,033–11,676,470	4,941.5–4,962.5	100

\* Company may allocate up to 60% shares of the QIB portion to anchor Investors

- Shareholding (%)

	Pre-issue	Post-issue
Promoters & Promoter Group	95.06	72.69
Public	4.94	27.31
Total	100.00	100.00

- Objective of the Issue

	Rs. m
Pre-payment or repayment of all or a portion of certain borrowings	650
Working capital	550
General corporate purposes	*

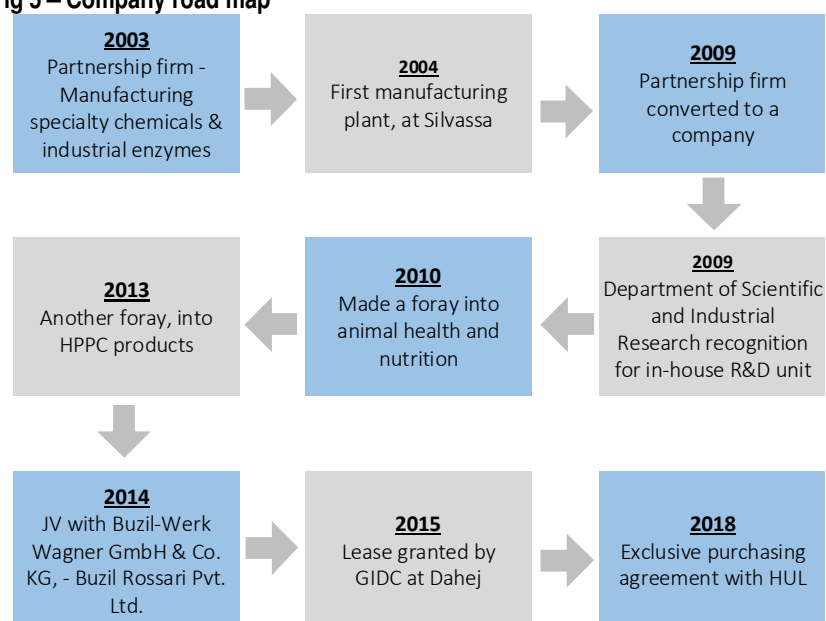
## Leading manufacturer of specialty chemicals

In 2003, the promoters started a specialty chemicals business as a partnership firm, 'Rossari Labtech', subsequently changed to 'Rossari Biotech', then converted into a company in 2009. Both the promoters are career-technocrats with over 45 years' (cumulative) experience in specialty chemicals.

One of India's leading specialty chemicals manufacturers, Rossari Biotech provides customised solutions to specific industrial and production requirements of customers, primarily in the FMCG, apparel, poultry and animal feed industries. It has a diversified product range, comprising

- Home- and personal-care and performance chemicals; textile specialty chemicals; animal health and nutrition products.
- Besides India, it has operations in 17 countries including Vietnam, Bangladesh and Mauritius.
- It is the largest manufacturer of textile specialty chemicals in India.

**Fig 5 – Company road map**

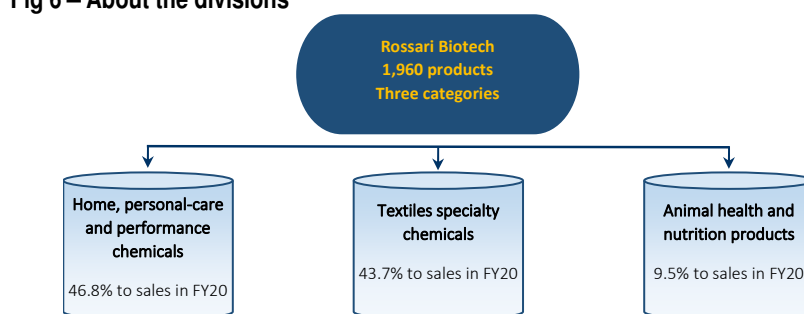


Source: RHP

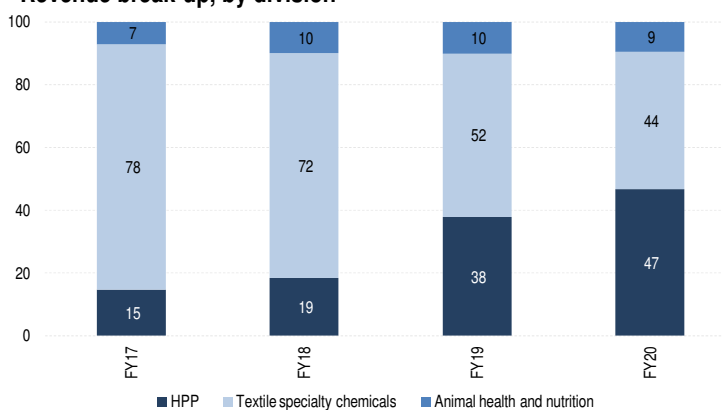
### About the key segments

The company's business comprises three chief categories

- Home- and personal-care and performance chemicals
- Textile specialty chemicals
- Animal health and nutrition products.

**Fig 6 – About the divisions**

Source: RHP

**Fig 7 – Revenue break-up, by division**

Source: RHP

## Home- and personal care, and performance chemicals (HPPC)

### Existing business

The company is the leading manufacturer of acrylic polymers in India and manufactures over 300 products for customers in industries such as

- Soaps and detergents
- Paints
- Inks and coatings
- Ceramics and tiles
- Water-treatment chemicals and
- Pulp and paper.

It also manufactures institutional cleaning chemical formulations for hospitality, facility management, airports, corporate bodies, food service, commercial laundries, malls, multiplexes, the educational sector and places of worship.

### Future plans

The company is in advanced stages of expanding its home- and personal-care, and performance product ranges in:

- Water-treatment formulations
- Special formulations for breweries
- Special formulation for dairies
- New products in cosmetics

## Business model

It primarily works within a business-to-business model. It sells certain end formulations to direct consumers as private labels or on digital market platforms such as Amazon. (HPC contributes 85% to the HPP business.) It has a wide network of over 22 distributors in nine states in India, with a long-standing relationship with many distributors.

## Products

**Fig 8 – Existing and proposed product details**

Existing Industry	Product application
Soaps and detergents	Anti re-deposition agent – four variants: Dispa 2050 HN; Detpro 2048 AD; Detpro 2040 CP; and Detpro 2045 HP
	Water-softener
	Stain-busters
	Detergent cakes and others
Paints and coatings	Different types of acrylic emulsions
	Different types of additives e.g. dispersing-agent thickeners, de-foamers and wetting agents, etc.
Ceramics and tiles	Body-binders
	Deflocculents
	Polishing agents
Pulp and paper	CMCs
	Acrylic emulsions
	Additives
	E.g. dispersing agents, DSRs, cross-linking agents and various products for water treatment
	Non-alcohol sanitizers
Proposed	
Cement and construction chemicals	Specialty additives for cement processing
Water-treatment formulations	Boiler chemicals & RO chemicals
	Cooling-tower chemicals and waste-water treatment
Specialty formulation for breweries and dairies	Hinders bacterial growth
	Breaks up molasses
	Cleaning sugar syrups
Sanitizers for electronic gadgets	Mobile-antibacterial sanitizers for screens

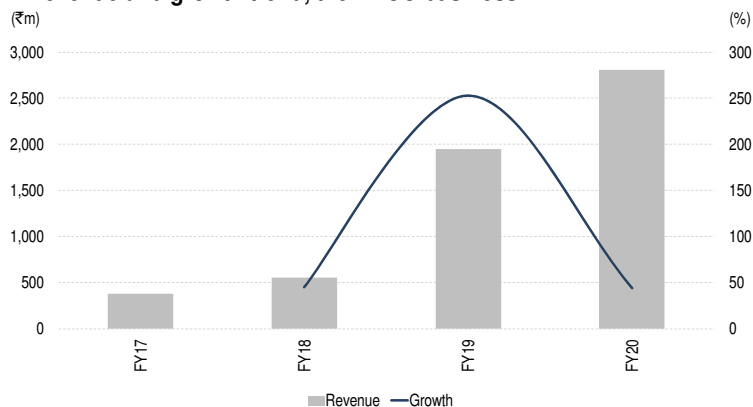
Source: RHP

## Key customers

Rossari Biotech manufactures and supplies home- and personal-care, and performance chemicals to over 373 customers (as on 31<sup>st</sup> May'20).

Key customers are

- RSPL (Ghadi detergent)
- IFB Industries
- Hindustan Unilever
- Panasonic India Pvt. Ltd.
- BSH Household Appliances Manufacturing Pvt. Ltd.
- CICO Technologies
- Rentokil Initial Hygiene India Pvt. Ltd.
- Millennium Papers Pvt. Ltd.

**Fig 9 – Revenue and growth trend, the HPCC business**

Source: RHP

### Textile specialty chemicals

Rossari Biotech is the largest manufacturer of textile specialty chemicals in India (30<sup>th</sup> Sep'19). It provides specialty chemicals for the entire value-chain of the textiles industry, starting from fibre, yarn to fabric, wet processing and garment processing. It manufactured and sold products to ~481 customers (as on 31<sup>st</sup> May'20).

It has a wide product basket based on providing diversified and value-added specialty chemicals to enhance

- Hydrophilic properties
- Anti-microbial properties
- Flame-retardant properties
- Fragrances
- Water repellents and
- UV-absorbing properties of textiles.

**Fig 10 – Existing and proposed product details**

Stage	Product application
Yarn production	Yarn dyeing and finishing
	Yarn lubricants
	Performance enhancers
Man-made fibre production	Lubricants
	Water-based and non-water-based
	Antistatics
Thread production	High-performance-thread lubricants
	Water-based and non-water-based
	Thread finishing
Digital printing	Performance enhancers and base treatment for digital printing technology
Fabric processing	Pre-treatment of cellulose
	Comprehensive pre-treatment range of products based on complex combination of chemistry of wetting, sequestering and dispersant sustainable chemistry focus
Dyeing auxiliaries	Full range of products based on dispersant, chelating and levelling agents
Finishing range / Garment finishing	Comprehensive pre-treatment range of products based on complex combination of chemistry polymer science and nano-technology
	Performance products
	Enzymes and biochemical finishing range
Printing	Comprehensive range of products based on complex combination of chemistry polymer science and nano-technology
	Performance products
	Enzymes and biochemical printing range

Source:RHP

### Business model and distribution network

The company follows a business-to-business or a business-to-business-to-consumer model for textile specialty chemicals.

It has a network of over 109 distributors in over 13 states in India and through 19 overseas distributors in 16 countries, including the USA, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey. It also has four regional branch offices in India, at Delhi, Ludhiana, Ahmadabad and Surat, to market products to customers in the north and west of India. Further, it has a regional branch office in Surat and an R&D support laboratory, which provides localized and expedient technical support to customers there.

It has international offices in Ho Chi Minh City (Vietnam) and Dhaka (Bangladesh) as these two are primary overseas markets for textile chemical products. It also has distributors in Bandung, West Java and Jakarta to expand business operations in Indonesia.

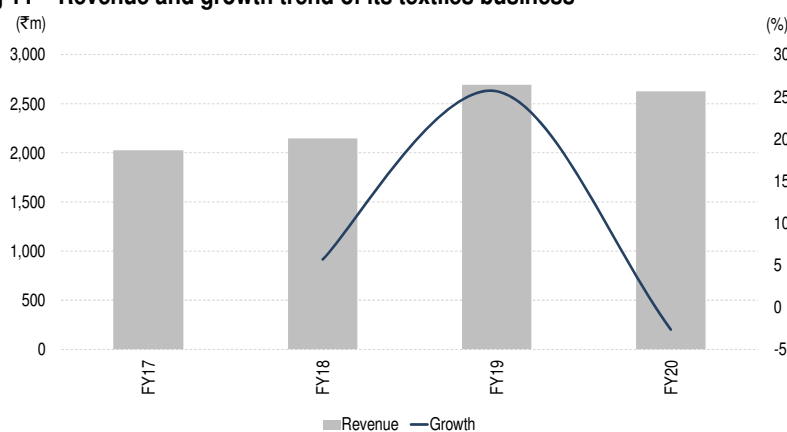
### Key customers

Rossari Biotech manufactures and supplies textile specialty chemical products to over 481 customers (on 31<sup>st</sup> May'20). Key customers are

- Arvind
- Raymond
- Ashnoor Textile Mills
- Bhaskar Industries Pvt. Ltd
- European Textile Chemical Corporation
- Shahi Exports Pvt. Ltd.

It also manufacture institutional-cleaning chemical formulations for hospitality, facility management, airports, corporate bodies, food services, commercial laundries, malls, multiplexes, the educational sector and places of worship.

**Fig 11 – Revenue and growth trend of its textiles business**



Source: RHP

### Animal health and nutrition

The company diversified into the animal health and nutrition business in 2011 and now supplies poultry-feed supplements, pet grooming and pet treats, including for weaning and infants.



**Fig 12 – Product details**

Industry	Product application
Poultry feed	Enzymes
	Vitamin premixes
	Trace minerals
	Toxin binders
	Acidifiers
	Liquid essential oils
	Liquid acidifiers
	Disinfectants
	Anticocci and AGP
	Pet grooming
Pet treat	Dog and cat treats (chicken, meat, fish, milk, carrot, <i>paneer</i> )

Source: RHP

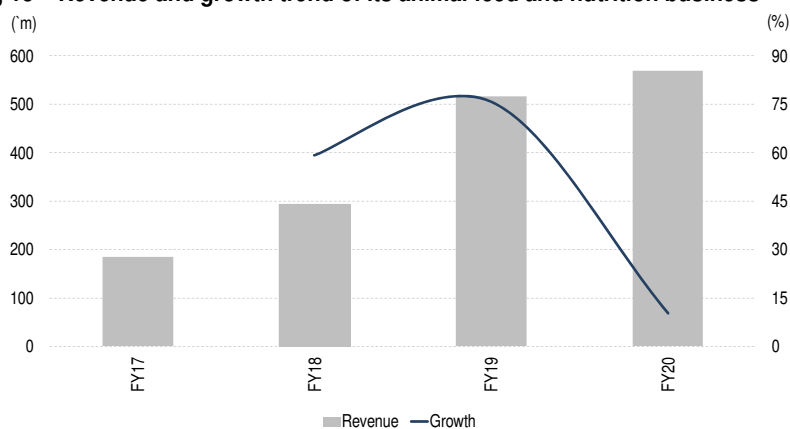
**Business model and distribution network**

It sells poultry-feed products through a business-to-business model and pet-grooming and pet-treat products to retail shop owners, in both cases through 37 distributors.

**Key customers**

- Hitech Hatch Fresh Pvt. Ltd.
- Gokul Poultry Industries
- Sarvottam Poultry Feed Supply Centre Pvt. Ltd.
- Sneha Farms Pvt. Ltd.

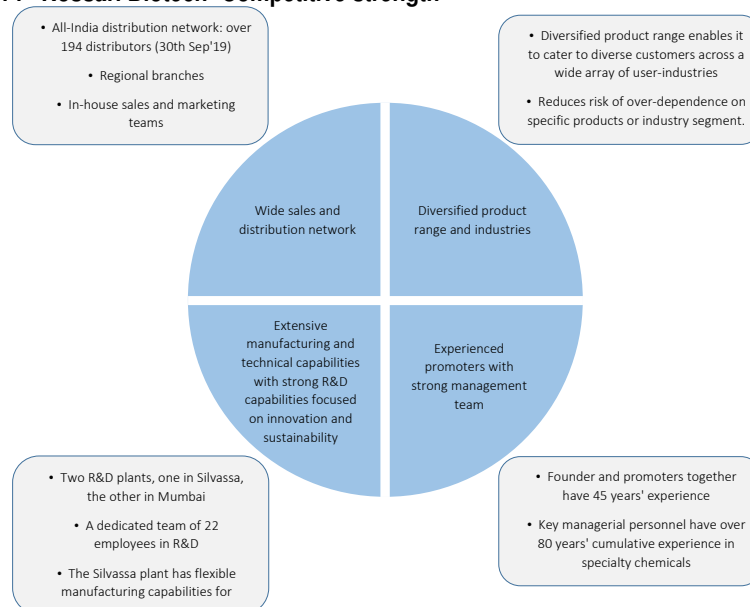
**Fig 13 – Revenue and growth trend of its animal feed and nutrition business**



Source: RHP

## Competitive strengths

Fig 14 –Rossari Biotech- Competitive strength



Source: RHP

### Large and diverse array of products

In the three business categories, it has a wide array of products. It sold ~1,960 products to various end-user industries. It caters to various customers' needs across the FMCG, apparel, and poultry and animal feed industries

### Strong R&D capabilities, focusing on innovation and sustainability

Rossri has two R&D facilities; one at Silvassa and the other in Mumbai, with a dedicated team of 22. With its strong R&D efforts, it focuses on

- Improving production processes
- Improving the quality of present products
- Creating new products and formulations and
- Making production processes of customers more efficient and sustainable through effective and eco-friendly products.

### Largest textile specialty chemicals manufacturer in India

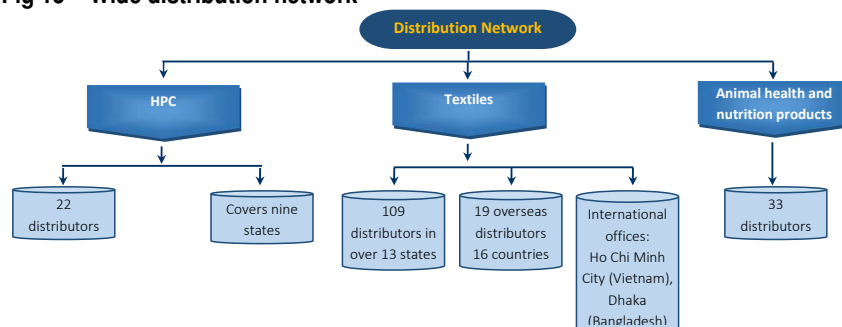
The company is the largest manufacturer of textile specialty chemicals in India. It provides specialty chemicals for the entire value-chain of the textile industry starting from products for yarn production, production of man-made fibre, thread production, digital printing, fabric processing, dyeing auxiliaries, finishing range and garment finishing to products for printing.

The operations are backed by a strong manufacturing infrastructure, a technically-knowledgeable marketing team, which understands the specific requirements of customers, and an innovative and technically robust R&D team which provides the right solutions with speed and efficiency based on consultations with the marketing team.

## Wide sales and distribution network

The company follows a business-to-business or a business-to-business-to-consumer model for HPCC and textile specialty chemicals. It has a wide network of 22 distributors in more than nine states for HPCC and 109 distributors in more than 13 states in India for textiles chemicals. Further, it has overseas distributors and regional offices.

**Fig 15 – Wide distribution network**



Source: RHP

## Experienced promoters with strong management team

The company has an experienced management team led by the founder-promoters, who have over 45 years' experience in the chemicals industry. It has an advisory board, which provides overall industry and business guidance to the Board of Directors. Key managerial personnel have over 80 years' (cumulative) experience in specialty chemicals.

## Growth triggers

Fig 16 – Future growth strategies



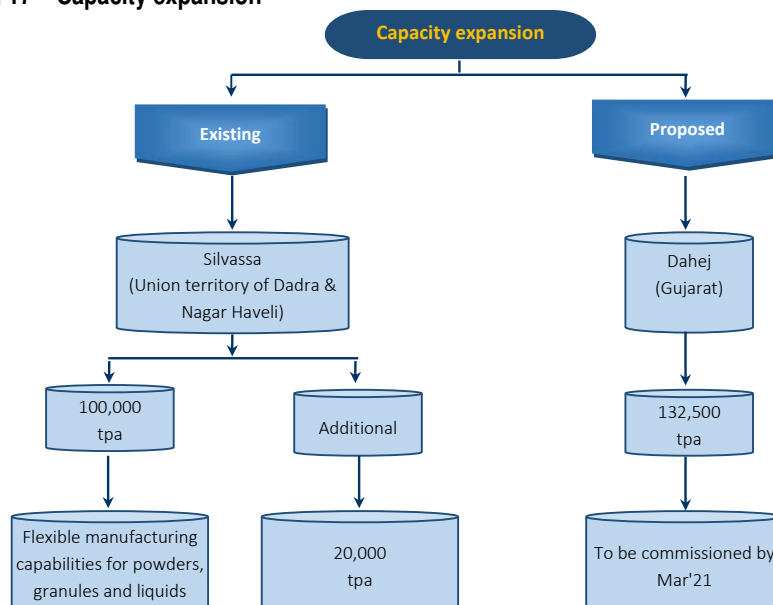
Source: RHP

### Capacity expansion with greater production efficiencies

The company has 100,000 tpa of manufacturing specialty chemicals (on 30th Sep'19) at Silvassa. It added 20,000 tons in H2 FY20. Further, it is coming out with another 132,500 tons at Dahej, expected to be complete by Mar'21, with modern technologies to improve efficiency. This would help in

- Optimum power utilization
- Maximization of the amount of movement of liquid handling in an automatic mode
- Mechanization of all the powder operations such as charging and bagging.

Fig 17 – Capacity expansion



Source: RHP

### Focus on green products with product launches

The company focuses on expanded its specialty chemicals product range to cater to specific requirements of customers and to expand into new business categories by introducing products.

It plans to launch two textile finishing products. Additionally, it is working toward the launch of anti-microbials and electromagnetic protection products. It is also planning to manufacture specialty chemicals for cement, for which it has formulated a specialty additive in-house used in cement manufacturing and which improves overall productivity and reduces production cost for cement manufacturers.

Further, being the single largest textile specialty chemicals manufacturer in India, it focuses on formulations which are not only eco-friendly but also improve the sustainability of manufacturing and other industrial processes in the the textile industry.

### Focus on customer base

It caters to multinational, regional and local FMCG companies, apparel and textiles companies, poultry-feed, animal-feed or food-service companies. It has long-standing relationships with customers, helping it position itself as a preferred supplier.

Ahead, it focuses on leveraging its sales and marketing network, diversifying its product range and solidifying its standing to establish relationships with new multinational, regional and local customers and expand its customer base.

### Expand international operations

Export of specialty chemicals is expected to grow as India will gradually become the central manufacturing hub for specialty chemicals. In line with the market opportunities, the company plans to expand its international footprint and increase revenue from exports.

For this, it has set up a separate team for exports with the primary objective of

- Expanding business operations in international markets
- Creating a distribution network and channel partners across regions and
- Building capabilities to serve such jurisdictions.

It plans to reach out to international brands for product adoption and brand nomination. It is also planning to enter into co-branding arrangements.

#### **Inorganic growth through strategic acquisitions**

- Diversify into new categories of specialty chemicals or into new domestic or international markets by investing in similar business opportunities

To lever consolidation in the sector by growing inorganically through opportunistic acquisitions,

## About the Management

### Experienced promoters with domain knowledge:

The promoters, Edward Menezes and Sunil Chari, have cumulative experience of almost five decades. Edward Menezes has over 25 years' experience in speciality chemicals and more than ten years' experience in different roles. Sunil Chari has over 20 years' experience in speciality chemicals and is responsible for business development.

**Fig 18 – About the management**

Name	Position	Profile
Edward Menezes	Promoter	The backbone of company's manufacturing. B.E., Institute of Chemical Technology (formerly University Department of Chemical Technology), Master's in marketing management from Mumbai University. Has over 25 years' experience in speciality chemicals and more than ten years' experience in different roles within the company
Sunil Chari	Promoter	Responsible for business development. Diploma in textile chemistry from Victoria Jubilee Technical Institute, Mumbai. Has over 20 years' experience in speciality chemicals
Annoottam Ghosh	Director	Ex chief executive of ICI India's speciality chemicals division (Uniqema) from 1999 to 2006. Ex MD of Croda India Pvt. Ltd from 2007 till his retirement in 2013
Vikram Gupta	Director	Founder, managing partner and investment committee member at IvyCap Ventures Advisors Pvt. Ltd.
Jean Marcopoulo	Director	Extensive experience in production and marketing of chemicals in many international areas including France, Scotland, Italy, the USA, China, Japan and Indonesia.
Karl Klaus	Director	Founder and MD of Autenta Consulting GmbH (Germany), and Autenta Consulting GmbH (Switzerland) and was a senior advisor to the management board of Buzil-Werk Wagner GmbH & Co.

Source: RHP

## Key risk

- For a significant portion of its revenue, the company relies on demand from the textile industry. Any downturn in the textile industry or an inability to increase or effectively manage its sales could impact the company's business and operations.
- The company is heavily reliant on certain customers and a significant part of revenue is generated from select clients. Besides, it does not have long-term contracts with these.
- At present, it has only one facility, at Silvassa. Any disturbance, slowdown or shutdown may impact its business.
- Any delay in launching products, failure in R&D in relation to new products
- Delay in commercialisation of the Dahej plant.
- Proceedings pending against the company and its subsidiaries are not material. No proceedings against the directors and promoters.

**Fig 19 – Cases against the company and its directors**

Name	Criminal proceedings	Tax proceedings (including property tax)	Statutory or regulatory proceedings	Material civil litigation	Amt. involved (₹ m)
Company					
By the company	1	Nil	Nil	Nil	1
Against the company	Nil	1	Nil	1	27
Subsidiaries					
By the subsidiaries	Nil	Nil	Nil	Nil	Nil
Against the subsidiaries	Nil	Nil	Nil	1	20

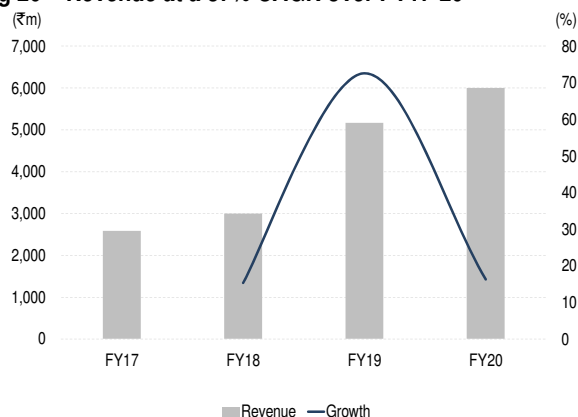
Source: RHP



# Financials

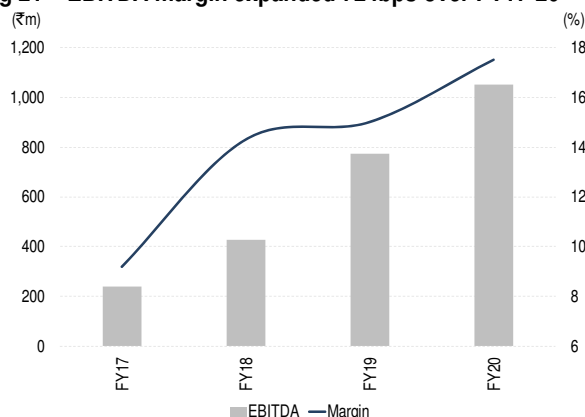
Over FY17-20, the company reported revenue, EBITDA and PAT CAGRs of respectively ~37%, 63% and 66%. Its EBITDA margin expanded by a robust 724bps to 17.5%. In FY20, it reported a 17.5% EBITDA margin, supported by a higher gross margin. To fund capex, it has taken on ₹644m debt, with the D/E ratio now at 0.4x. In FY20, its RoE and RoCE were respectively 42% and 34%.

**Fig 20 – Revenue at a 37% CAGR over FY17-20**



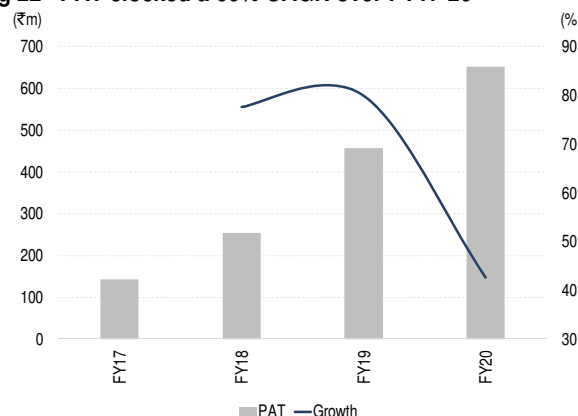
Source: RHP

**Fig 21 – EBITDA margin expanded 724bps over FY17-20**



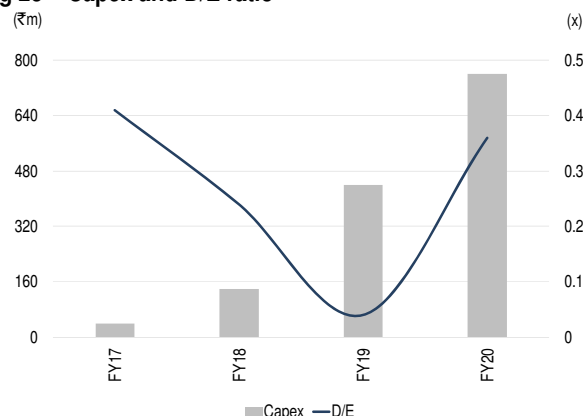
Source: RHP

**Fig 22 – PAT clocked a 66% CAGR over FY17-20**



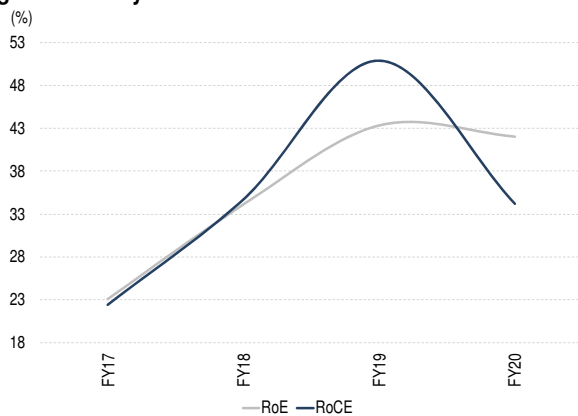
Source: RHP

**Fig 23 – Capex and D/E ratio**



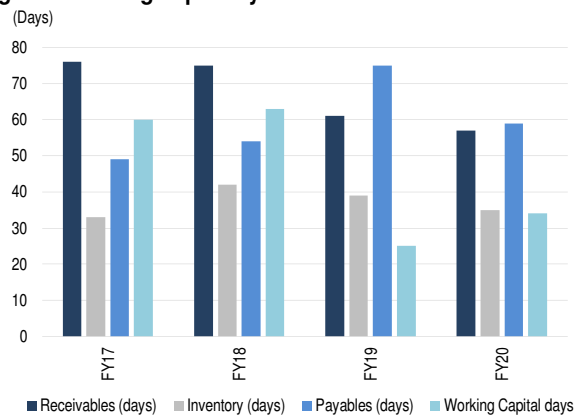
Source: RHP

**Fig 24 – Healthy return ratios**



Source: RHP

**Fig 25 – Working-capital cycle**



Source: RHP

## Peer comparison

**Fig 26 – Peer valuation**

	M. Cap (₹ bn)	EV / EBITDA (x)				P / E (x)			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Aarti Industries	165	27.5	26.6	18.7	18.8	52.1	49.4	33.5	30.7
Vinati Organics	104	47.7	48.8	24.4	24.5	74.6	72.4	36.9	31.2
Atul	138	27.3	27.2	17.7	14.6	42.7	49.9	31.9	20.7
Galaxy Surfactants	56	22.0	20.6	16.6	16.1	38.0	35.5	29.3	24.3
Fine organics	60	41.4	38.0	25.7	24.4	76.8	62.7	43.9	36.3
Rossari Biotech*	22	90.9	50.9	27.8	19.9	151.0	84.9	47.2	33.1

Source: Company, Anand Rathi Research \* Considering ₹425 price per share

**Fig 27 – Peers' Financials**

(%)	CAGR (FY17-20)			Gross margins	EBITDA margins	RoCE			RoE			Cash-conversion cycle (days)		
	Revenue	EBITDA	PAT			FY20	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18
Aarti Industries	9.8	14.4	19.3	50.9	23.3	12.7	14.0	12.1	21.1	18.7	18.0	126	149	151
Vinati Organics	17.1	24	33.5	58.3	40.2	17.6	27.9	26.9	18.1	26.9	26.1	105.1	106.3	103.5
Atul	13	21	27.3	51.9	22	12.3	16.4	21.3	12.3	16.0	21.1	70	85	68
Galaxy Surfactants	6.3	10.8	16	33.9	14.2	17.3	18.5	18.6	24.4	23.9	23.7	64.9	62.4	69.3
Fine organics	10	18.4	28.4	41.3	23.2	24.1	26.2	25.8	24.1	27.2	26.6	75.0	73.6	74.0
Rossari Biotech	36.7	63.4	65.9	38.1	17.5	34.7	50.9	34.2	34.1	43.3	42.0	63.0	25.0	33.0

Source: Company, Anand Rathi Research

## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

### Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

### Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

**General Disclaimer:** This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. [www.rathionline.com](http://www.rathionline.com)

**Disclaimers in respect of jurisdiction:** This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

#### Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

##### Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

##### Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

© 2019. This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.  
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.