

Rossari Biotech

Rossari Biotech is one of the leading specialty chemicals manufacturing companies in India providing customized solutions to specific industrial and production requirements of the customers. It caters to the FMCG, apparel, and poultry & animal feed industries which contributed 46.8%, 43.7% and 9.5% respectively to F.Y.20 revenue.

Positives: (1) It is the largest textile specialty chemical manufacturer in India. (2) It has experienced promoters along with strong management team. (3) Company also has proven track record of robust financial performance. (4) Surge in home, personal care and performance chemicals (sanitizers, cleaning products) demand due to covid-19. (5) Doubling of capacity to 252,500 MTPA by F.Y.21 end from 120,000 MTPA as on F.Y.20 end. Post the increase in capacity, Company will have to incur just maintenance capital expenditure for the next 3-4 years. (6) Only 10% of sales are dependent on imported raw material, of which less than 5% comes from China.

Investment concerns: (1) Slowdown in demand especially from textile industry. (2) Revenue is dependent on top 5 customers which contributed 43.9% of revenue for F.Y.19-20. (3) Delay in addition of new capacity or lower utilization ratio of new capacity to be added than expectation (4) Company is not able to maintain its ROE, ROCE, working capital days and EBITDA margins.

Outlook & Valuation: At the upper end of the price band, Rossari demands PE multiple of 32.1x F.Y.20 fully diluted EPS. None of the listed chemical companies has the same business as Rossari. Its specialty chemical peers such as Galaxy Surfactants, Fine Organics, Aarti industries, Atul and Vinati Organics are currently trading at F.Y.2020 P/E multiples of 24.0x, 36.6x, 30.5x, 20.6x and 30.9x respectively. We believe Rossari will command premium over most of its chemical peers as it is net debt free as well as it has better asset turnover, working capital days, ROE and ROCE better than most of its peers. In the last three years Rossari have reported 32% and 66% revenue and PAT CAGR due to the strong promoter and management team. As we are positive on the future outlook for the industry as well as the company, **we would recommend to "Subscribe" to the issue.**

Key Financials

| Y/E March (₹ cr) | FY18 | FY19 | FY20 |
|-------------------|-------|-------|-------|
| Net Sales | 299.1 | 516.2 | 600.1 |
| % chg | 15.3 | 72.6 | 16.2 |
| Net Profit | 25.4 | 45.7 | 65.3 |
| % chg | 77.6 | 79.7 | 42.9 |
| EBITDA (%) | 14.3 | 15.0 | 17.5 |
| EPS (Rs) | 5.3 | 9.4 | 13.4 |
| P/E (x) | 81.0 | 45.0 | 32.1 |
| P/BV (x) | 23.6 | 16.6 | 7.2 |
| RoE (%) | 34.1 | 43.3 | 31.8 |
| RoCE (%) | 35.0 | 51.2 | 25.3 |
| EV/EBITDA | 48.7 | 26.5 | 20.0 |
| EV/Sales | 6.9 | 4.0 | 3.5 |

Company Source: RHP, Angel Research; Note: valuation ratios based at upper price band

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Issue Open: July 13, 2020

Issue Close: July 15, 2020

Face Value: ₹2

Present Eq. Paid up Capital: ₹10.2cr

Offer for Sale: **1.05 cr Shares

Fresh issue: ₹50 cr

Post Eq. Paid up Capital: ₹10.4cr

Issue size (amt): *₹494.2 -**₹496.3cr

Price Band: ₹423-425

Lot Size: 35 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹2,197cr -**₹2,207cr

Promoters holding Pre-Issue: 95.1%

Promoters holding Post-Issue: 72.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

| | |
|-------------------|--------------|
| QIBs | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail | 35% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-----|
| Promoters | 73% |
| Others | 27% |

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Company background

Rossari Biotech was started in C.Y.03 as “Rosssari Labtech”, a partnership firm having Mr. Edward Menezes and Mr. Sunil Chari as partners. It was converted to Company in C.Y.09 by Mr. Edward Menezes and Mr. Chari. It has PAN India presence through 206 distributors and across 17 countries through 29 distributors as on January 31, 2020. It has focused R&D capabilities built around customer requirements and sustainable products & processes.

Product Segment

Home, personal care and performance chemicals

Rossari is the leading manufacturer of acrylic polymers in India (Source: F&S Report) and currently manufacture over 300 products for the customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. Company also manufacture institutional cleaning chemical formulations for hospitality, facility management, airports, corporates, food service, commercial laundry, malls, multiplexes, educational sector, places of worship etc. Company are in advanced stages of expanding their home, personal care and performance product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. Company primarily operates in a business-to-business model. Major customers are RSPL (Ghadi detergent), IFB Industries, HUL, Panasonic India, CICO Technologies and Millennium Papers.

Textile specialty chemicals

Company provide specialty chemicals for the entire value-chain of the textile industry starting from fiber, yarn to fabric, wet processing and garment processing and as on May 31, 2020, manufactures and sales approximately 1,543 products for the customers in this product category. Company focus on providing eco-friendly sustainable chemical solutions to the customers which either replaces the highly polluting chemicals being used by the customers or reduces the impact of environmental pollution by suitably modifying the overall industrial process. Major Customers are Arvind, Raymond, Ashnoor Textile and Bhaskar Industries.

Animal health and nutrition

Company have also diversified into animal health and nutrition and currently supply poultry feed supplements and additives, pet grooming and pet treats including for weaning, infants and adult pets and currently manufactures over 100 products for the customers in this category. Major customers are Hitech Hatch Fresh, Gokul Poultry Industries and Sneha Farms.

Business Update: Covid-19

- Revenue during the last 10 days during Mar'20 was lost on account of the lockdown. However, from Apr'20 onwards the plant utilization picked up to 50% -55% and is expected to reach 75%-80% in Jul-20.
- The Company is experiencing robust recovery from Jun'20 onwards. Revenue during Jun'20 is expected to surpass the average monthly revenue of F.Y.20.
- Manufacturing facility was operational during the lockdown period albeit with lower capacity due to logistics, labor and demand constraints.
- Demand in the Home, Personal Care and Performance Chemicals witnessed a surge in demand given the focus on hygiene products like sanitizers, disinfectants, hand washes and other cleaning products.
- Commencement of phase-1 of Dahej plant in Jul'20 of the planned expansion of capacity by 132,500 MTPA and plant to be fully operational by end of the fiscal year.

Issue Details

Rossari is raising ₹50cr through fresh issue & selling 1.05 cr equity shares through offer for sale in the price band of ₹423-425.

Pre & Post IPO Shareholding Pattern

| No of shares | (Pre-issue) | % | (Post-issue) | % |
|--------------|-------------------|------------|-------------------|------------|
| Promoter | 48,245,500 | 95.1 | 37,745,500 | 72.7 |
| Public | 2,507,420 | 4.9 | 14,183,891 | 27.3 |
| Total | 50,752,920 | 100 | 51,929,391 | 100 |

Source: RHP, Angel Research.

Note: Calculated on upper price band

Objects of the offer

₹65cr for repayment/prepayment of debt including accrued interest, ₹50cr for working capital requirements and balance for general corporate purposes.

Key Management Personnel

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 holds a bachelor's degree in science (chemistry major) from K. J. Somaiya College of Science, University of Bombay and a bachelor's degree of science (technology) in textile chemistry from University Department of Chemical Technology (UDCT), University of Bombay. He has over 25 years of experience in the specialty chemicals industry.

Mr. Sunil Chari, is the Managing Director of the Company. He was also a founder of the Company and has been a member of our Board since incorporation of the Company. He holds a bachelor's degree in arts from the Kakatiya University. He also holds a diploma in technical and applied chemistry from Victoria Jubilee Technical Institute (VJTI). He has over 20 years of experience in the specialty chemicals industry.

Peer Comparison F.Y.20

| Particulars | PE | P/BV | ROE % | EBIDTA margin % |
|--------------------|------|------|-------|-----------------|
| Rossari Biotech | 32.1 | 7.2 | 31.8 | 17.5 |
| Aarti Industries | 30.5 | 5.3 | 23.3 | 21.7 |
| Vinati Organics | 30.9 | 8.1 | 30.6 | 39.7 |
| Atul | 20.6 | 0.9 | 17.4 | 22.0 |
| Galaxy Surfactants | 24.0 | 5.2 | 24.1 | 15.7 |
| Fine organics | 36.6 | 9.9 | 30.4 | 23.1 |

Source: Company, Angel Research

Note: Valuation ratios based on closing price as on July 10, 2020

Consolidated Income Statement

| Y/E March (₹ cr) | FY18 | FY19 | FY20 |
|---|-------|-------|-------|
| Total operating income | 299.1 | 516.2 | 600.1 |
| % chg | - | 72.6 | 16.2 |
| Total Expenditure | 256.4 | 438.6 | 495.3 |
| Cost of materials, stores & spare parts | 196.6 | 355.2 | 369.3 |
| Change in inventories | 1.1 | -16.0 | 2.4 |
| Excise duty | 6.9 | - | - |
| Employee Benefit Expense | 19.8 | 27.5 | 37.2 |
| Other Expenses | 32.1 | 71.8 | 86.4 |
| EBITDA | 42.7 | 77.6 | 104.8 |
| % chg | - | 82.0 | 34.9 |
| (% of Net Sales) | 14.3 | 15.0 | 17.5 |
| Depreciation & Amortisation | 5.2 | 12.3 | 16.9 |
| EBIT | 37.5 | 65.4 | 87.9 |
| % chg | - | 74.4 | 34.5 |
| (% of Net Sales) | 12.5 | 12.7 | 14.6 |
| Interest & other Charges | 1.4 | 2.9 | 3.6 |
| Other Income | 1.4 | 0.9 | 3.7 |
| (% of Sales) | 0.5 | 0.2 | 0.6 |
| Recurring PBT | 37.5 | 63.4 | 88.1 |
| % chg | - | 69.1 | 38.9 |
| Share of loss of joint venture | - | - | -0.2 |
| Tax | -12.1 | -17.7 | -22.6 |
| PAT (reported) | 25.4 | 45.7 | 65.3 |
| % chg | - | 79.7 | 42.9 |
| (% of Net Sales) | 8.5 | 8.9 | 10.9 |
| Basic & Fully Diluted EPS (Rs) | 5.3 | 9.4 | 13.2 |
| % chg | - | 79.8 | 40.1 |

Source: Company, Angel Research

Consolidated Balance Sheet

| Y/E March (₹ cr) | FY18 | FY19 | FY20 |
|-----------------------------|--------------|--------------|--------------|
| SOURCES OF FUNDS | | | |
| Equity Share Capital | 4.4 | 4.4 | 10.2 |
| Other equity | 82.7 | 119.4 | 276.5 |
| Shareholders Funds | 87.1 | 123.8 | 286.7 |
| Total Loans | 20.1 | 3.9 | 61.0 |
| Other liabilities | 3.3 | 3.6 | 2.2 |
| Total Liabilities | 110.5 | 131.3 | 349.8 |
| APPLICATION OF FUNDS | | | |
| Net Block | 43.8 | 74.0 | 86.5 |
| Right of use of assets | 7.2 | 7.1 | 7.0 |
| Capital Work-in-Progress | 2.4 | 2.8 | 21.8 |
| Current Assets | 109.9 | 159.8 | 326.3 |
| Inventories | 34.6 | 54.9 | 58.2 |
| Investments | 6.9 | - | 13.7 |
| Sundry Debtors | 61.6 | 85.9 | 94.1 |
| Cash & Bank Balance | 1.0 | 6.0 | 127.2 |
| Other Assets | 5.9 | 12.9 | 33.1 |
| Current liabilities | 54.5 | 118.5 | 121.7 |
| Net Current Assets | 55.5 | 41.2 | 204.7 |
| Other Non Current Asset | 1.7 | 6.2 | 29.9 |
| Total Assets | 110.5 | 131.3 | 349.8 |

Source: Company, Angel Research

Consolidated Cash Flow Statement

| Y/E March (₹ cr) | FY18 | FY19 | FY20 |
|----------------------------------|---------------|---------------|----------------|
| Profit before tax | 37.5 | 63.4 | 88.1 |
| Depreciation | 5.2 | 12.3 | 16.9 |
| Change in Working Capital | (9.9) | 11.4 | (31.1) |
| Interest Expense | 1.4 | 2.9 | 3.6 |
| Direct Tax Paid | (8.3) | (20.4) | (20.1) |
| Others | (0.2) | 1.6 | (2.4) |
| Cash Flow from Operations | 25.6 | 71.2 | 54.8 |
| (Inc.)/ Dec. in Fixed Assets | (20.8) | (37.1) | (89.7) |
| Investment in JV | - | - | (4.4) |
| Others | 0.4 | 0.6 | (96.2) |
| Cash Flow from Investing | (20.4) | (36.4) | (190.3) |
| Interest paid | (1.4) | (2.1) | (3.3) |
| Borrowings | (4.9) | (15.7) | 64.0 |
| Loan from related parties | - | (0.7) | (1.2) |
| Dividend paid on equity shares | (0.3) | (10.6) | (2.6) |
| Issue of Share capital | - | - | 0.5 |
| Share Premium received | - | - | 99.5 |
| Cash Flow from Financing | (6.5) | (29.2) | 156.9 |
| Inc./ (Dec.) in Cash | (1.4) | 5.6 | 21.5 |
| Opening Cash balances | 2.1 | 0.6 | 5.7 |
| Effect of exchange rates | (0.1) | (0.5) | 2.0 |
| Closing Cash balances | 0.6 | 5.7 | 29.2 |

Source: Company, Angel Research

Key Ratios

| Y/E March | FY18 | FY19 | FY20 |
|------------------------------|------|------|------|
| Valuation Ratio (x) | | | |
| P/E (on FDEPS) | 81.0 | 45.0 | 32.1 |
| P/CEPS | 64.6 | 35.6 | 25.4 |
| P/BV | 23.6 | 16.6 | 7.2 |
| EV/Sales | 6.9 | 4.0 | 3.5 |
| EV/EBITDA | 48.7 | 26.5 | 20.0 |
| Per Share Data (Rs) | | | |
| EPS (Basic) | 5.3 | 9.4 | 13.4 |
| EPS (fully diluted) | 5.3 | 9.4 | 13.2 |
| Cash EPS | 6.6 | 11.9 | 16.7 |
| Book Value | 18.0 | 25.6 | 59.2 |
| Returns (%) | | | |
| Angel ROIC (Pre tax) | 38.7 | 55.0 | 47.5 |
| ROE | 34.1 | 43.3 | 31.8 |
| ROCE | 35.0 | 51.2 | 25.3 |
| Turnover ratios (x) | | | |
| Asset Turnover | 6.8 | 7.0 | 6.9 |
| Inventory / Sales (days) | 42.2 | 38.8 | 35.4 |
| Receivables (days) | 75.1 | 60.8 | 57.3 |
| Payables (days) | 53.6 | 74.9 | 59.0 |
| Working capital cycle (days) | 63.7 | 24.6 | 33.6 |

Source: Company, Angel Research

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