



# Rossary Biotech Ltd -Subscribe

10<sup>th</sup> July 2020

## IPO DETAILS

Issue Date 13<sup>th</sup> July-15<sup>th</sup> July 2020

Price Band 423-425 per Share

Bid Lot 35 & in multiple there

Face Value Rs 2/Share

Listing BSE, NSE

Fresh Issue Rs 50 Crores

Offer For Sale 10,500,000 Eq Shares

Pre Issue Eq Shares 50,752,950 Eq Shares

BRLM Axis Capital Ltd ,  
ICICI Securities Ltd

Registrar Link Intime India  
Private Limited

Company is one of the leading specialty chemicals manufacturing companies in India based on sales for Fiscal 2019 providing customized solutions to specific industrial and production requirements of company's customers primarily in the FMCG, apparel, poultry and animal feed industries through company's diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products.

Company's customer base currently comprises a host of multinational, regional and local FMCG companies including, inter alia, RSPL Limited (Ghadi detergent), IFB Industries Limited, Hindustan Unilever Limited, BSH Household Appliances Manufacturing Private Limited, CICO Technologies Limited, Rentokil Initial Hygiene India Private Limited and Millennium Papers Private Limited; apparel and textile companies including, inter alia, Arvind Limited, Ashnoor Textile Mills Limited, Bhaskar Industries Private Limited, European Textile Chemical Corporation and Shahi Exports Private Limited; and poultry feed, animal feed or food-service companies including inter alia, Hitech Hatch Fresh Private Limited, Gokul Poultry Industries, Sarvottam Poultry Feed Supply Centre Private Limited and Sneha Farms Private Limited.

Company have been able to increase total revenue from Fiscal 2018 to Fiscal 2020 at a compound annual growth rate of 41.65%, EBITDA at a compound annual growth rate of 56.58% and profit after tax has increased at a compound annual growth rate of 60.27% over the same period. Company have reported Return on Net Worth of 31.79%, 43.32% and 34.08% with a total debt to equity ratio of 0.23 for Fiscal 2020, Fiscal 2019 and Fiscal 2018, respectively, and a Return on Capital Employed of 24.79%, 50.93% and 34.68% for Fiscal 2020, Fiscal 2019 and Fiscal 2018, respectively.

In the home, personal care and performance chemicals category, according to the F&S Report, company's dominance in the home care ingredients market (consisting of both household segment and industrial and institutional segments) is in enzymes and acrylic polymers which account for approximately 10% of the total homecare ingredients market and are expected to showcase robust growth due to the increased awareness about health and hygiene, as well as considerable increase in per capita disposable income. According to the F&S Report, company's presence in the animal health and nutrition products is largely in poultry and pets. These segments account for approximately 55% of the total market. The addressable market for company in Indian animal health and nutrition products is approximately USD 0.14 billion.

### Valuation

Company is bringing the issue at p/e multiple of more than 30x at higher end of price band of Rs 423-425/share on post issue FY20 eps basis. . Company has shown strong growth in its financials in last few years. The company is expected to see strong growth in coming years also after full commencement of dahej facility . Even on sectoral front, robust growth in user industries in India will support growth while emerging opportunities in exports led by clamp down in China and outsourcing opportunity from Western countries are expected to spur growth in exports and import substitution which will benefit company. Therefore, looking after all, we recommend "Subscribe" the issue both for short & long term horizon.



Company operate in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius. According to the F&S Report, as on September 30, 2019, company is the largest manufacturer of textile specialty chemicals in India providing textile specialty chemicals in a sustainable, eco-friendly yet competitive manner. As a manufacturer of specialty chemicals, company focus on functionality and application of its products which form a key ingredient to company's customers' manufacturing and industrial processes.

Company's 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, company had a range of 2,030 different products sold across the three product categories.

Company manufacture majority of its products in-house from its manufacturing facility at Silvassa in the Union Territory of Dadra & Nagar Haveli. The Silvassa Manufacturing Facility, located on 8.6 acres of land, has an installed capacity of 120,000 MTPA. The Silvassa Manufacturing Facility has flexible manufacturing capabilities for powders, granules and liquids. The annual capacity utilization of company's Silvassa Manufacturing Facility has moved from 74.19% in Fiscal 2018 to 93.94% in Fiscal 2019 and to 82.46% in Fiscal 2020. Company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA which will enjoy proximity to the deepwater, multi-cargo port of Dahej. The proposed state-of-the-art facility will be well-equipped with advanced technologies and will be commissioned in Fiscal 2021.

## Segments

### ***Home, personal care and performance chemicals***

Company is the leading manufacturer of acrylic polymers in India (Source: F&S Report) and currently manufacture over 300 products for its 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 is in advanced stages of expanding its home, personal care and performance product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. Company's revenue from sale of home, personal care and performance products constituted 46.81% of its total revenue in Fiscal 2020.

### ***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 company's customers in this product category. Company have differentiated its product portfolio by focusing on providing diversified and value added speciality chemicals to enhance hydrophilic properties, antimicrobial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties of the textiles. Revenue from sale of textile chemicals constituted 43.71% of company's total revenue in Fiscal 2020.

### ***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 manufacture over 100 products for its customers in this category. Company forayed into pet grooming sub-category pursuant to company's acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in Fiscal 2019. While almost all company's products under the animal health and nutrition category are manufactured in-house, company's pet treats are manufactured through job-work contracts. Company sell its poultry feed products through a business-to-business model and company's pet grooming and pet treat products to retail shop owners, in both cases through distributors. Company's revenue from sale of animal health and nutrition products constituted 9.48% of company's total revenue in Fiscal 2020.



INVESTMENT RATIONALE

***Diversified product portfolio addressing the needs of varied and long-standing customers across industries***

Company cater to various customers' needs across FMCG, apparel, and poultry and animal feed industries through its diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. Company have multiple products customized for different stages of industrial production of textile. As on May 31, 2020, company manufactures and sells approximately 1,543 products in the textile specialty chemical sector. The large product portfolio helps company in retaining a customer in the textile industry across the entire value-chain as well as improving customer stickiness as procuring chemicals from different vendors for the same product creates significant logistical difficulty for the customers. Company have also entered into a joint venture with Buzil for manufacturing institutional cleaning, hygiene and disinfection products. The addition of this product range has helped in gaining institutional customers for facility management services, hotels, airports, corporates, malls, hospitals and educational institutions. Company also have a wide range of products in the animal health and nutrition category.

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

According to the F&S Report, company is the largest manufacturer of textile specialty chemicals in India as on September 30, 2019. Company provide 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, garment finishing to products for printing. Company's operations are backed by a strong manufacturing infrastructure for production of textile specialty chemicals, a technically knowledgeable marketing team which understands the specific requirements of its customers in textile industry and an innovative and technically robust R&D team which is able to provide the right solutions with speed and efficiency based on consultations with the marketing team.

***Wide sales and distribution network***

Company's growth in its business operations have been made possible by its wide sales and distribution network with whom company enjoy long-standing relationships. Company's pan-India distribution network has over 204 distributors as on May 31, 2020. Company primarily follow a business-to-business or a business-to-business-to-consumer model for company's home, personal care and performance chemicals, and textile specialty chemicals product categories. Company have a wide network of 22 distributors spread over 9 states for its home, personal care and performance chemicals in India. Company also have four regional branch offices in Delhi, Ludhiana, Ahmadabad and Surat for marketing of its products to the customers in the North and West Indian regions. These regional branch offices also act as the localised point of contact for company's textile specialised chemicals. Further, company have started selling certain of its end formulations in the home, personal care and performance chemicals to direct consumers under its private label or in partnership with digital market platforms such as Amazon. In the textile specialty chemicals product category, company sell its 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. Company have also set up international offices in Ho Chi Minh City, Vietnam and Dhaka, Bangladesh as these two are primary overseas markets for its textile chemical products. For company's animal health and nutrition products, company sell its poultry feeds through a business-to-business model and its pet grooming and pet treat products to retail shop owners through 37 distributors.



***Expand manufacturing capacity and increase production efficiency***

According to the F&S Report, rapid industrialization in India and China is expected to drive demand for specialty chemicals. The Asia Pacific countries are expected to dominate the market across the world, with a share of 40%, owing to the large customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region. The Asia Pacific is followed by North America and Europe. The global specialty chemicals market is expected to grow at a CAGR of 5.3% while the Asia Pacific is anticipated to grow at the fastest rate of 6-7% during the forecast period. The specialty chemicals industry in India is driven by both domestic consumption and exports.

***Introduce new products and focus on green products which promote sustainability***

Company seek to continue to expand its specialty chemicals product portfolio to cater to the specific requirements of company's customers and also expand into new business segments through introduction of new products. Company continuously work on launch of new products through its focused R&D activities. For example, company is currently planning to launch two new products in the textile finishing range. Additionally, company is also working towards launch of products in the anti-microbial and electromagnetic protection range. Company seek to focus on formulations for water treatment plants in its home, personal care and performance chemicals category and primarily target to cross-sale this product to its existing customers. Company is also planning to manufacture specialty chemicals for cement industry where company have formulated a specialty additive in-house which is used in the cement manufacturing and which improves the overall productivity and reduces production cost for cement manufacturers.

***Increase wallet share with existing customers and continued focus to expand customer base***

Company's customer base currently comprises a host of multinational, regional and local FMCG companies including, inter alia, RSPL Limited (Ghadi detergent), IFB Industries Limited, Hindustan Unilever Limited, BSH Household Appliances Manufacturing Private Limited, CICO Technologies Limited, Rentokil Initial Hygiene India Private Limited and Millennium Papers Private Limited; apparel and textile companies including, inter alia, Arvind Limited, Ashnoor Textile Mills Limited, Bhaskar Industries Private Limited, European Textile Chemical Corporation and Shahi Exports Private Limited; and poultry feed, animal feed or food-service companies including inter alia, Hitech Hatch Fresh Private Limited, Gokul Poultry Industries, Sarvottam Poultry Feed Supply Centre Private Limited and Sneha Farms Private Limited. Company have enjoyed with its customers over the years and the repeat and increased orders received from them are an indicator of company's position as a preferred supplier to leading FMCG, apparel, textile and poultry feed companies.

***Inorganic growth through strategic acquisitions***

Going forward, the strategic investments and acquisitions of businesses in the specialty chemicals industry may act as an enabler of growing company's business. Company's efforts at diversifying into new segments of the specialty chemicals industry or into new domestic or international markets can be facilitated by investing in similar business opportunities or making acquisitions of existing brands or businesses with manufacturing facilities, market share or growth potential, whose operations, resources, capabilities and strategies are complementary to company.



### Risk Factors:

Company is the largest manufacturer of textile specialty chemicals in India (*Source: F&S Report*) and its business and financial performance is significantly dependent on sale of specialty chemicals to Indian textile manufacturers and export of its specialty chemicals to textile manufacturers in Bangladesh, Vietnam, and other global markets. In Fiscals 2020, 2019 and 2018 revenue from sale of TSC products represented 43.71%, 52.13% and 71.54% respectively, of company's revenue from operations. As a result of company's dependence on the textile industry, company's sales volumes, profitability and liquidity are closely tied to the demand for textiles in India and globally and a slowdown in the textile industry may result in a reduction in the volume of company's textile chemicals business, which could materially and adversely affect company's business, financial condition and results of operations.

### Objects of Issue:

#### The Offer for Sale

The object of the Offer for Sale is to allow the Selling Shareholders to sell an aggregate of up to 10,500,000 Equity Shares held by them. Company will not receive any proceeds from the Offer for Sale.

#### Fresh Issue

The net proceeds of the Fresh Issue, i.e. gross proceeds of the Fresh Issue less the Offer expenses apportioned to company ("**Net Proceeds**") and the proceeds from the Pre-IPO Placement are proposed to be utilised in the following manner:

1. Repayment/prepayment of certain indebtedness availed by company (including accrued interest);
2. Funding working capital requirements; and
3. General corporate purposes.

### Financial Statement

(Rs Cr)

Particulars	FY18	FY19	FY20
Total Income	299.06	516.22	600.09
Total Exp	256.43	438.59	495.35
EBIDTA	42.63	77.63	104.74
Other Income	1.37	0.91	3.72
Depreciation	5.17	12.26	16.85
EBIT	38.83	66.27	91.62
Interest	1.36	2.88	3.56
PBT	37.47	63.39	88.06
Sh of Profit in Asso	0.00	0.00	-0.22
PBT	37.47	63.39	87.84
Tax	12.07	17.71	22.59
PAT	25.40	45.68	65.25
Other Comp Income	-0.14	-0.03	-0.90
Adjusted PAT	25.26	45.65	64.35
Eq Cap	4.40	4.40	10.15
Net Worth	87.08	123.81	286.68
Eq Shares	0.44	0.44	5.08
EPS	57.73	103.83	12.86
ROE	29.01	36.87	22.45
BV	197.91	281.39	56.48
ROCE	34.96	49.62	25.33
Debt/Eq	0.23	0.03	0.21

Source:RHP