

Rossari Biotech Limited

Sensex	36,694
Nifty	10,768

ISSUE DETAILS

Offer Price Band	₹423-425
Face Value	₹2
Issue Size (in mn)	₹4942-4963
Pre-issue shares (in mn)	50.7
Post-issue shares (in mn)	51.9
Market Cap (in mn. post issue)	₹21,970-22,070
Type	Offer for Sale & Fresh Issue
Fresh Issue (nos mn)	1.18
OFS (nos mn)	10.5
Listing (Stock Exchange)	NSE, BSE
Retail Allocation	35%
QIB Allocation	50%
Non-Insti Investors	15%
Minimum Bid	35 shares and in multiple
Offer Open Date	13 th July, 2020
Offer Close Date	15 th July, 2020
Website:	www.rossaribiotech.com

Shareholding Pattern (%)	Pre-Offer	Post Offer
Promoter Holding	95.06	72.69
Public Shareholding	4.94	27.31
Total	100.00	100.00

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

(₹ mn)

Year	FY18	FY19	FY20
Revenue	2,990	5,162	6,001
Growth%	15.3%	72.6%	16.2%
EBITDA	426	776	1045
EBITDA Margins %	14.3	15.0	17.4
ReportedPAT	254	457	653
Reported EPS (₹)	5.3	9.4	13.4
Return on Net Worth	34.1%	43.3%	31.8%
Return on Capital Employed	34.7%	50.9%	24.8%

Source: Rossari Biotech Ltd. RHP

Yogita Desai

Tel: +9122-4019 2910

yogitadesai@way2wealth.com

Ashwini Sonawane

Tel: +9122-4019 2956

ashwinisonawane@way2wealth.com

Company Background

Company was initially incorporated as "Rossari Labtech" on March 6, 2003, as a partnership firm however subsequently was changed into company and named Rossari Biotech Ltd on 5th December 2003. Rossari Biotech is one of the leading specialty chemicals manufacturing companies in India providing customized solutions to requirements of their 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. The company operates in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius etc. The company manufactures majority of its products in-house from manufacturing facility at Silvassa in the Union Territory of Dadra & Nagar Haveli which has an installed capacity of 120,000 MTPA.

Business Overview

Company's business is organized in three main product categories – home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. As of May 31, 2020, company has wide range of 2,030 different products sold across the three product categories.

- **Home, personal care and performance chemicals** – Company is the leading manufacturer of acrylic polymers in India and currently manufactures over 300 products in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. It also manufactures institutional cleaning chemical formulations for hospitality, facility management, airports, corporates, food service, commercial laundry, malls, multiplexes etc. Company is in advanced stages of expanding home, personal care and performance product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies and also planning to introduce certain new products in the personal care and cosmetics segments. Revenue from sale of home, personal care and performance products constituted 46.8% of total revenue in FY20.
- **Textile specialty chemicals** – Company provides specialty chemicals (1543 products) for the entire value-chain of the textile industry starting from fiber, yarn to fabric, wet processing and garment processing for its customers in this product category. They have differentiated their product portfolio by focusing on providing diversified and value added speciality chemicals to enhance hydrophilic properties, anti-microbial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties of the textiles. Revenue from sale of textile chemicals constituted 43.7% of total revenue in FY20.
- **Animal health and nutrition** – Company has also diversified into animal health and nutrition and currently supplies (over 100 products) poultry feed supplements and additives, pet grooming and pet treats including for weaning, infants and adult pets. It forayed into pet grooming sub-category pursuant to acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in Fiscal 2019. Company's products under the animal health and nutrition category are manufactured in-house, while pet treats products are manufactured through job-work contracts. Revenue from sale of animal health and nutrition products constituted 9.48% of total revenue in FY20.

Objects of The Issue

Particulars	(₹ mn)
Repayment/prepayment of certain indebtedness availed by the company (including accrued interest)	650
Funding working capital requirements	500
General Corporate Expenses	NA

Business Strengths

- **Diversified product portfolio addressing the needs of varied and long-standing customers across industries** – The company caters to various customer’s needs across FMCG, apparel, and poultry and animal feed industries through their diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. For example, in the home, personal care and performance chemicals category, the company currently manufactures and sell over 300 products for their customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. While, the company manufactures and sells approximately 1,543 products in the textile specialty chemical sector. The company have also entered into a joint venture with Buzil for manufacturing institutional cleaning, hygiene and disinfection products. Rossari’s customer base currently comprises a host of multinational, regional and local companies. The company enjoys relationship in excess of five years with 11 out of their top 15 customers. This can be demonstrated by the fact that over 21.50% of their consolidated revenue from operations in FY20 was derived from such customers.
- **Largest textile specialty chemical manufacturer in India** – According to the F&S Report, the company is the largest manufacturer of textile specialty chemicals in India as on September 30, 2019 providing 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. The company believes their 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 their 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. According to the F&S Report, the demand for textile specialty chemicals have risen owing to the huge production of not just apparels but also rising demand for home furnishings, floor coverings and technical textile globally. The global textile specialty chemicals market is expected to grow at a CAGR of 4.0% (by value) from 2018-2023. The company believes the future growth opportunities in the textile specialty chemicals industry will be primarily driven by diversified and value-added specialty chemicals which provide sustainable solutions and they are well placed to benefit from such growth opportunities.
- **Extensive manufacturing and technical capabilities** – The company manufactures majority of their products in-house from the Silvassa Manufacturing Facility, which has an installed capacity of 120,000 MTPA and has flexible manufacturing capabilities for powders, granules and liquids which ensures that they can manufacture any of these at any point of time depending on the specific requirements of their customers. The Silvassa Manufacturing Facility has received a number of other accreditations and certifications by national and international organizations including ISO 9001:2015 and ISO 14045:2012. This facility also has 2,500 MT bulk storage capacity for acid, alkali, base oils and surfactants. 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. The company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA to expand their manufacturing capacity in line with company’s growth in overall business. The proposed state-of-the-art facility will be well-equipped with advanced technologies and will be commissioned in FY21.
- **Strong R&D capabilities with focus on innovation and sustainability** – The company’s R&D efforts place significant emphasis on improving their production processes, improving the quality of their present products, creating new products and formulation and making production processes of their customers more efficient and sustainable through their effective and eco-friendly products. Rossari’s R&D efforts are driven by customer needs, in terms of meeting specific needs that their direct customers communicate to them prior to commencement of manufacturing of these products. The company has two R&D facilities – one within the Silvassa Manufacturing Facility and another one in Mumbai and have a dedicated team of 22 employees in R&D facilities. R&D covers all the three aspects of the products – synthesis research, formulation and development, and technical service. The company believes that their ability to provide eco-friendly sustainable solutions which help customers to reduce their carbon footprint and the overall impact on the environment in a cost efficient manner is a testament to robust R&D capabilities.
- **Wide sales and distribution network** – The company’s growth in the business operations is driven by wide sales and distribution network (has over 204 distributors as on May 31, 2020) with whom they enjoy long-standing relationships. The company primarily follows a business-to-business or a business-to-business-to-consumer model for their home, personal care

and performance chemicals, and textile specialty chemicals product categories and has a wide network of 22 distributors spread over 9 states for their home, personal care and performance chemicals in India. In the textile specialty chemicals product category, the company sells their 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, etc. For animal health and nutrition products, they sell poultry feeds through a business-to-business model and pet grooming and pet treat products to retail shop owners through 37 distributors.

- **Experienced Promoters with strong management team having domain knowledge –** Rossari Biotech has an experienced management team led by its founders and Promoters, Edward Menezes and Sunil Chari who have +45 years of experience in the chemicals industry and the company benefits immensely from their expertise. The Key Managerial Personnel cumulatively has over 80 years of experience in the specialty chemicals industry. The experience and relationships that its management team has, have enabled them to extend its operating capabilities, improved the technical quality of the products and facilitated its growth in the specialties chemical industry.

Future Strategies

- **Expand manufacturing capacity and increase production efficiency –** Rossari Biotech seeks to capitalize on the growth opportunities in the specialty chemicals industry based on their well-positioned operations, network of distributors and dealers and being led by an experienced management team. The company currently operates one manufacturing facility at Silvassa from which they produced ~86,581 MTPA of specialty chemicals in FY20 (increased over the years from 44,512 MTPA in FY18 to 73,584 MTPA in FY19). The company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA.
- **Continue to focus on innovation and grow business across customer segments –** The company continuously seek to improve on their products to make them more effective for their customers and their applications and processes. The company also seeks to grow their business across diverse customer segments by focusing on innovation and customization of their solutions. The company is in advanced stages of expanding their home, personal care and performance chemicals product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. The company is also planning to introduce certain new products in the personal care and cosmetics segments. Further, they plan to introduce new formulations including special formulations for mobile-antibacterial for screens, non-alcohol sanitizers and also introduce technologies in newer markets of spin finish, technical textile and textile sizing and also seek to expand their product portfolio in the pet food sub-segment and introduce new formulations in this segment.
- **Increase wallet share with existing customers and continued focus to expand customer base –** Rossari Biotech customer base currently comprises a host of multinational, regional and local FMCG companies, apparel and textile companies and poultry feed, animal feed or food-service companies. The company believes that the long-standing relationships that they have enjoyed with their customers over the years and the repeat and increased orders received from them are an indicator of their position as a preferred supplier to leading FMCG, apparel, textile and poultry feed companies. Going forth, the company intends to continue to leverage their sales and marketing network, diversified product portfolio and their industry standing to establish relationships with new multinational, regional and local customers and expand their customer base.
- **Expand international operations –** According to the F&S Report, the global specialty chemicals market is expected to grow at a CAGR of 5.3% with the Asia Pacific market leading with an estimated growth rate of 6-7% during the forecast period. Export of specialty chemicals is also expected to grow as India will gradually become the central manufacturing hub for such specialty chemicals. In line with the market opportunities, the company seeks to expand their international footprint and increase their sales from exports. In FY20, FY19 and FY18, revenue from exports was 11.04%, 13.92% and 13.77% of company's total revenue, respectively. The company aims to increase their share of revenue from exports in future and believes that they are well positioned to exploit the opportunities offered by the expected growth in the specialty chemicals industries internationally due to their strong manufacturing capabilities, strong R&D capabilities and wide product portfolio.

Key Concerns/Risks

- 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.
- Any disturbance, slowdown or shutdown of its Silvassa manufacturing facility may impact its business.
- Any delay or default in payments from distributors or customers could result in the reduction of the company's profits.

Our View

Rossari Biotech has been performing entity on persistent basis showcasing ~41% topline CAGR, ~56% EBITDA CAGR & 60% PAT CAGR over FY17-FY20. Since there are no listed companies with the same business model, we have considered other listed entities in the specialty chemical business such as Fine Organics Ltd, Galaxy Surfactants, Aarti Industries etc. which trade at FY20 P/E multiples of ~25x-31x. At the offer price band of ₹423- 425/- Rossari Biotech is commanding a ~33.1x P/E & ~19.9x EV/EBITDA on FY20 figures which is inline with peers mentioned above. We believe company's diversified product offerings, increasing demand for the products, growth prospects on the greater capacity (new upcoming facility), superior return ratios and stable asset quality justifies its valuation. **We thus advise investors with a long-term investment horizon to SUBSCRIBE to the issue.**

Consolidated Financials

		(₹ mn)		
Balance Sheet		FY20	FY19	FY18
Assets				
Non-Current Assets				
(A)	Property, Plant And Equipment	817.55	680.33	437.26
(B)	Right Of Use Assets	70.15	70.91	71.68
(C)	Capital Work-In-Progress	217.51	28.27	23.96
(D)	Intangible Assets	47.66	59.70	0.40
(E)	Financial Assets			
	(I) Investments	41.75	-	-
	(II) Other Financial Assets	3.96	3.51	3.08
(F)	Income Tax Assets (Net)	15.76	15.53	0.16
(G)	Deferred Tax Assets	0.51	0.51	0.23
(H)	Other Non-Current Assets	237.06	42.11	13.36
Total Non-Current Assets		1,451.91	900.87	550.13
Current Assets				
(A)	Inventories	581.70	548.99	346.14
(B)	Financial Assets			
	(I) Investments	137.30	-	69.11
	(II) Trade Receivables	941.36	859.19	615.59
	(III) Cash And Cash Equivalents	292.11	57.42	6.25
	Bank Balances Other Than Cash And Cash Equivalents	980.22	2.67	3.40
	(V) Other Financial Assets	53.89	13.68	8.97
(C)	Other Current Assets	276.66	115.63	49.91
Total Current Assets		3,263.24	1,597.58	1,099.37
Total Assets		4,715.15	2,498.45	1,649.50
Equity And Liabilities				
Equity				
(A)	Equity Share Capital	101.51	44.00	44.00
(B)	Other Equity	2,765.28	1194.12	826.80
Total Equity		2,866.79	1238.12	870.80
Attributable To Owners		2,866.79	1238.12	870.80
Attributable To Non-Controlling Interests		-	-	-
Total Equity		2,866.79	1238.12	870.80
Liabilities				
Non-Current Liabilities				
(A)	Financial Liabilities			
	Borrowings	339.60	6.73	12.87
(B)	Deferred Tax Liability (Net)	5.40	18.12	20.52
(C)	Provisions	16.26	17.51	12.45
Total Non-Current Liabilities		361.26	42.36	45.84
Current Liabilities				
(A)	Financial Liabilities			
	(I) Borrowings	270.52	32.70	188.33
	(II) Trade Payables			
	(A) Total Outstanding Dues Of Small Enterprises And Micro Enterprises	51.28	46.17	20.15
	(B) Total Outstanding Dues Of Creditors Other Than Small Enterprises And Micro Enterprises	918.76	1,013.65	419.42
	(III) Other Financial Liabilities	161.87	100.35	76.56
(B)	Provisions	6.66	6.02	4.64
(C)	Current Tax Liabilities (Net)	36.61	0.28	14.40
(D)	Other Current Liabilities	41.40	18.80	9.36
Total Current Liabilities		1,487.10	1,217.97	732.86
Total Equity And Liabilities		4,715.15	2,498.45	1,649.50

	(₹ mn)		
Profit and Loss Statement	FY20	FY19	FY18
Revenue from operations	6,000.94	5162.18	2990.61
Other Income	37.24	9.06	13.68
Total Income	6,038.18	5171.24	3004.29
EXPENSES			
Cost of materials consumed	3,692.64	3552.25	1965.79
Changes in inventories of finished goods and work-in-progress	24.38	(159.59)	10.77
Excise Duty	-	-	68.90
Employee benefits expense	372.07	275.15	198.35
Finance costs	35.57	28.78	13.55
Depreciation and amortization expenses	168.52	122.64	51.73
Other expenses	864.41	718.09	320.46
Total Expenses	5,157.59	4537.32	2629.55
Restated Profit before tax for the year	880.59	633.92	374.74
Share of Loss of Joint Venture	(2.18)	-	-
Restated Profit before tax for the year	878.41	633.92	374.74
Tax Expense			
Current tax charge	238.04	178.92	108.35
Deferred tax (credit) / charge	(12.16)	(1.83)	12.36
Total Tax Expense	225.88	177.09	120.71
Restated Profit for the year	652.53	456.83	254.03
Attributable to owners	652.53	456.83	254.03
Attributable to non-controlling interests	-	-	-
Other comprehensive Income			
Items that will not be reclassified to profit or loss			
Remeasurements of the defined benefit plans	(2.81)	(3.21)	(0.62)
Income tax relating to items that will not be reclassified to profit or loss	0.56	0.92	0.19
Total Other Comprehensive Income	(2.25)	(2.29)	(0.43)
Attributable to owners	(2.25)	(2.29)	(0.43)
Attributable to non-controlling interests	-	-	-
Total comprehensive income for the period/year	650.28	454.54	253.60
Attributable to owners	650.28	454.54	253.60
Attributable to non-controlling interests	-	-	-
Earnings per equity share (in ₹)			
Basic	13.42	9.44	5.25
Diluted	13.23	9.44	5.25

(₹ mn)

Cash Flow Statement	FY20	FY19	FY18
Cash flows from operating activities			
Restated Profit before tax	880.59	633.92	374.74
Adjustments for:			
Loss / (Profit) on sale of property, plant and equipment (net)	0.42	(0.01)	0.82
Provision for expected credit loss recognized on trade receivables	0.83	-	2.57
Depreciation and amortization expenses	168.52	122.64	51.73
Written down of Inventory to net realisable value	4.93	16.07	-
Finance Costs	35.57	28.78	13.55
Dividend Income	(1.11)	(0.57)	(1.56)
Interest Income	(15.44)	(6.55)	(5.06)
Employees Compensation expense	4.63	-	-
Provision/Write off of doubtful advances	1.20	-	-
Net foreign exchange (gain)/loss	(19.99)	4.88	1.47
Net gain arising on financial assets measured at fair value through loss	0.29	2.35	-
Operating profit before working capital Changes	1,060.44	801.51	438.26
Changes in:			
Trade receivables and other assets	(204.06)	(344.23)	(108.79)
Inventories	(37.65)	(214.02)	(101.20)
Trade payables and other liabilities	(68.97)	672.16	110.85
Cash generated from operations	749.76	915.45	339.12
Income taxes paid (Net of refunds)	(201.48)	(203.68)	(83.43)
Net cash flow generated from operating activities	548.28	711.77	255.69
Cash flows from investing activities			
Net (Investment)/Proceeds on sales in financial assets - Mutual Fund	(137.38)	69.39	(69.11)
Investment in joint venture	(43.93)	-	-
Dividend Received	1.11	0.57	1.55
Interest Received	13.86	5.23	5.06
Payments for property, plant and equipment and intangible assets	(759.71)	(439.91)	(139.25)
Proceeds from disposal of property, plant and equipment	0.83	0.01	-
(Increase)/Decrease in earmarked and margin account (Net)	(977.79)	0.49	(2.62)
Net cash flow used in investing activities	(1,903.01)	(364.22)	(204.37)
Cash flows from financing activities			
Proceeds from / (Repayment of) short term borrowing (Net)	249.40	(148.82)	(37.32)
Proceeds of loans from related parties	(11.58)	354.12	-
Repayment of loans from related parties	-	(360.92)	-
Proceeds from long-term borrowings	403.67	3.23	-
Repayment of long-term borrowings	(12.58)	(11.80)	(11.39)
Interest paid	(33.00)	(21.39)	(13.59)
Dividend paid on equity shares	(26.48)	(105.92)	(2.65)
Issue of Share capital	4.71	-	-
Share Premium received	995.29	-	-
Net cash flow generated from / (used in) in financing activities	1,569.43	(291.50)	(64.95)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	214.70	56.05	(13.63)
Opening Cash and cash equivalents	57.42	6.25	21.35
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	19.99	(4.88)	(1.47)
Closing Cash and cash equivalents	292.11	57.42	6.25

Team

Analyst	Designation	Sector	Email	Telephone
Vinay Tiwary	Head – Research		vinaytiwary@way2wealth.com	+9122-6146 2930
Jayakanth Kasthuri	Research Analyst	Capital Goods & Logistics	Jayakanthk@way2wealth.com	+9122-4019 2914
Ashwini Sonawane	Research Associate	FMCG	ashwinisonawane@way2wealth.com	+9122-4019 2956
Yogita Desai	Research Analyst	Chemicals & Building Materials	yogitadesai@way2wealth.com	+9122-4019 2910
Harshil Gandhi	Research Analyst	BFSI	harshilgandhi@way2wealth.com	+9122-4019 2915
Institutions	Designation		Email	Telephone
Kaushal Jaini	Vice President		kaushaljaini@way2wealth.com	+9122-4019 2916
Manisha Panchal	Institutional Dealer		manishapanchal@way2wealth.com	+9122-4019 2984

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Disclosure of Interest Statement in Rossari Biotech Limited as on July 13, 2020

Name of the Security	Rossari Biotech Limited
Name of the analyst	Yogita Desai and Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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