

Rossari Biotech

Refer to important disclosures at the end of this report

Capital raise to augment intelligent chemistries

Price Band: Rs423-425

Rating: SUBSCRIBE (▲)



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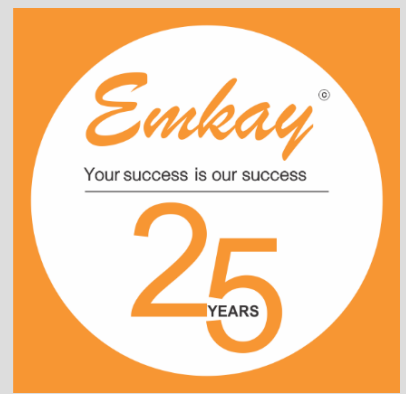
- Capital raise to deleverage balance sheet and fund growth opportunities:** Rossari Biotech is planning to raise ~Rs4.95bn through a mix of fresh issue (Rs500mn, 1.17mn shares) combined with Offer for Sale (OFS) route (~Rs4.45bn, 10.5mn shares), to the public. Management plans to utilize the capital raised for: 1) repaying debt of ~Rs650mn, and 2) supplement future working capital requirements of ~Rs500mn. Total borrowings were ~Rs600mn in FY20 vs. ~Rs40mn in FY19.
- Considerable share in TSC, with strong distribution network and product portfolio:** Rossari holds ~6% market share in the highly fragmented Textile Specialty Chemicals (TSC) which contributes ~44% to sales and has grown at an 11% CAGR over FY18-20. Rossari's historical leadership position in TSC is primarily due to a specialized product basket of customized formulations, aided by decades of technical experience and R&D. Home, Personal and Performance Chemicals (HPPC) makes ~47% and Animal Health and Nutrition (AHN) ~10% which have grown at 125%/39% CAGRs over FY18-20. Management is keen on sustaining TSC market share and is confident on Health and Hygiene Prospects (HPPC) to supplement growth by consistently delivering tailored solutions across all business segments. In addition, expansion plans are ongoing which should enable to service segments such as Water treatment solutions (in place), Pet shampoos, Distilleries, Dairy Industry and Breweries (R&D completed).
- Dahej plant to spur imminent growth and enhance future prospects:** The Rs900mn expansion plans of Dahej plant, Gujarat, should add 132ktpa capacity (>2x of existing capacity) by FY21-end. At present, the company is only operating out of the Silvassa facility (Rs800mn capex) with an installed capacity of 120ktpa (20ktpa capacity was added in March'20). High asset turnover in the business of >6x (FY20) augurs well for ~Rs5.4bn incremental revenue potential from capacity expansion at peak utilization. The first phase has already started in July'20 (30kmt) and balance would come online by Mar'21.
- Outlook and valuation:** The company has delivered robust growth in revenue/EBITDA/PAT over FY15-FY20, reporting CAGRs of 31%/51%/78%, leading to high return ratios (RoE/RoCE at 25%/32% in FY20). The new capacity expansion at Dahej (132ktpa) should strengthen its portfolio in the high-growth HPPC segment to serve its wide customer base. Customized product offering, fungible capacities and rapid finished product conversion rate remain the key differentiators for the company. At the upper price band of Rs425, the stock is available at 33x FY20 earnings.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals \(Page 27\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20
Revenue	2,334	2,918	5,162	6,001
EBITDA	245	449	776	1,047
EBITDA Margin (%)	10.5	15.4	15.0	17.5
APAT	156	289	457	655
EPS (Rs)	7.09	5.25	9.44	13.42
EPS (% chg)	353.5	85.3	79.8	42.1
ROE (%)	29.5	38.5	39.4	31.8
P/E (x)	59.66	80.57	44.81	31.52
EV/EBITDA (x)	39.01	21.24	13.05	19.88
P/BV (x)	15.36	10.40	8.10	7.49

Source: Company, Emkay Research



Issue Details

Price Band	Rs 423-425
Issue Opens	13 th July 2020
Issue Closes	15 th July 2020
Issue size	11.6mn shares
Issue Size	Rs4.95bn.
No. of Shares Pre-issue	50.75mn
No. of shares Post issue	51.90mn
Post issue market cap	Rs21.9-22bn

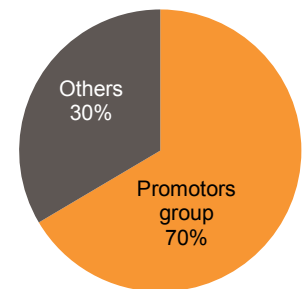
Issue Structure

QIBs	50%
Non-Institutional Category	15%
Retail	35%

Objects of the Issue

Repayment of debt and fund additional working capital requirements.

Shareholding Pattern (%) Post Issue



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Snapshot of share capital structure and capital raise

Particulars	Lower Band (LB)	Upper Band (UB)
→ Share price (Rs.)	423	425
→ Fresh Issue (FI) of Rs500mn		
Shares issued in FI (mn) (Face value of Rs. 2 each)	1.182	1.176
→ OFS of 10.50mn shares		
Amount raised in OFS (Rs mn)	4,441.5	4,462.5
Total amount raised (Rs mn)	4,941.5	4,962.5
Total shares issued to public (mn)	11.682	11.676
→ Pre issue shares outstanding 50.75mn		
Post issue shares O/S (mn)	51.932	51.926
Market cap post issue (Rs bn)	21.97	22.07
→ Promoter and promoter group holding pre issue 95.48.25mn shares		
Post FI & OFS promoter holding	70.42%	70.43%

Source: Company, Emkay Research, RHP

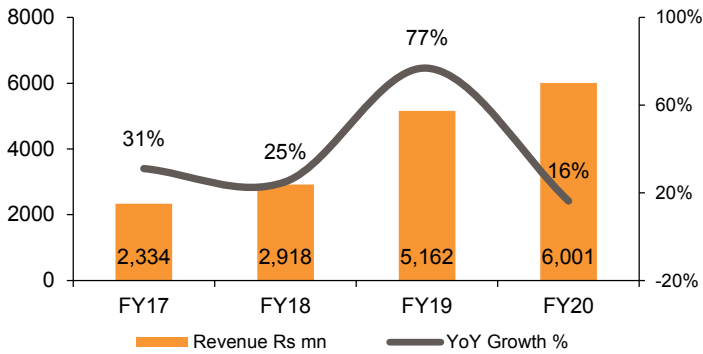
Exhibit 2: Timetable for listing

Particulars	Date
Issue opens on	13th July 2020
Issue closes on	15th July 2020
Indicative Timetable Activity On or about	
Finalization 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

Source: Company, Emkay Research, RHP

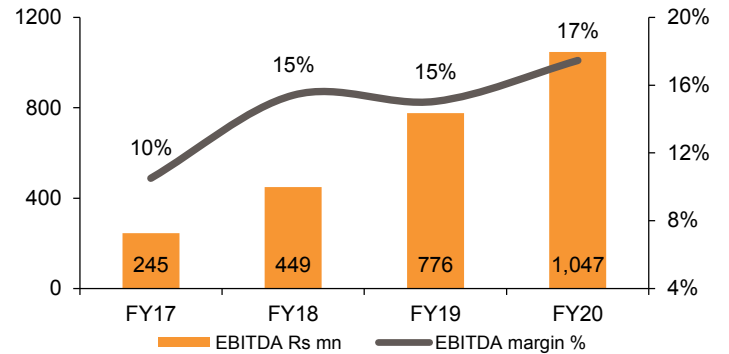
Story in Charts

Exhibit 3: Revenue growth to sustain from opportunities in the HPPC segment



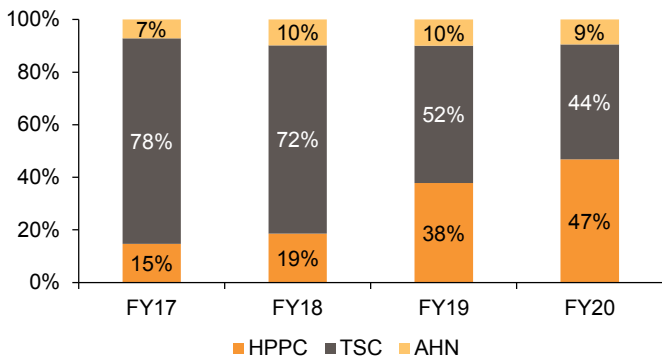
Source: Company, Emkay Research, RHP

Exhibit 4: Improved positioning in the market translated into better pricing power, which expanded gross margins



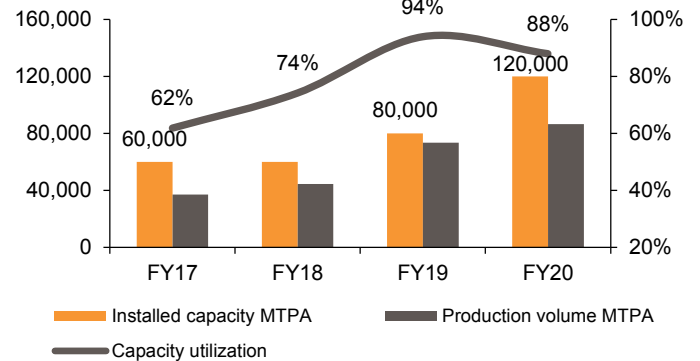
Source: Company, Emkay Research, RHP

Exhibit 5: HPPC share takes lead and management is optimistic on prospects in health and hygiene business



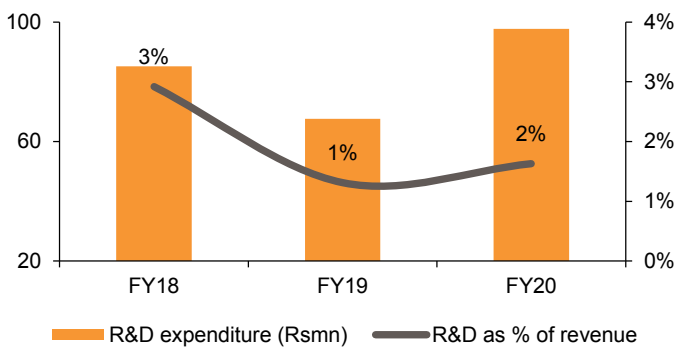
Source: Company, Emkay Research, RHP

Exhibit 6: Dahej plant to double capacity by Mar'21; TSC capacity constraints resolved



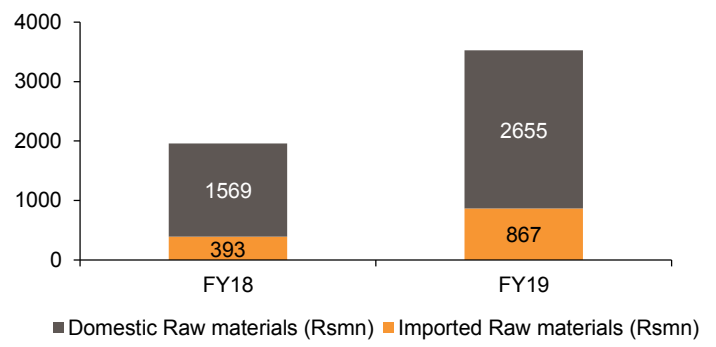
Source: Company, Emkay Research, RHP

Exhibit 7: Product R&D focus to be core principle of Rossari



Source: Company, Emkay Research, RHP

Exhibit 8: <10% of Raw materials is imported of which China <5%

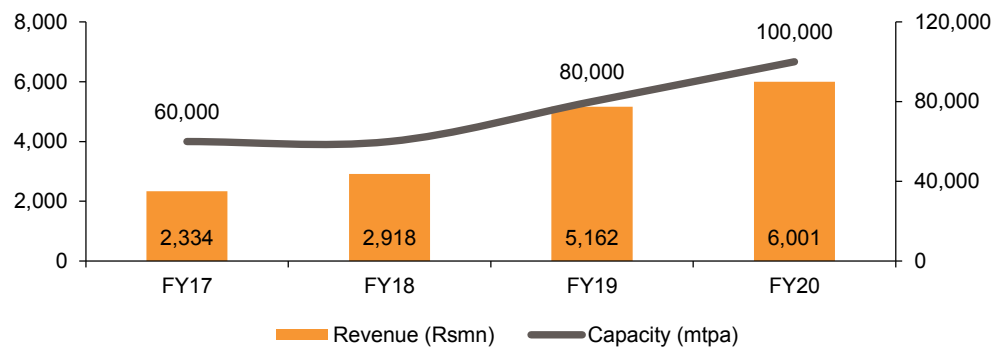


Source: Company, Emkay Research, RHP

Key investment arguments

Capacity expansion at Dahej to spur growth: Rossari is doubling its capacity from 120ktpa to 252ktpa with Dahej facility (132ktpa) fully commissioning by FY21-end. The first phase has already started in July'20, and balance would come online by Mar'21. Total capex for the Dahej project is ~Rs900mn (72:28 debt/equity) of which 80% funding is already deployed. Rossari has recently commissioned additional 20ktpa capacity at Silvassa facility in Mar'20. The company's asset turnover has been historically high at >5x (FY20 6.5x) because of faster conversion of finished goods. Management expects to maintain same asset turnover ratio going ahead which translates into ~Rs5.4bn additional revenue from Dahej facility at peak utilization (90-95%). With promising demand in the fast-growing HPPC segment, management intends to utilize the majority of this facility for HPPC segment which could drive the segment growth at >30% CAGR over FY20-23.

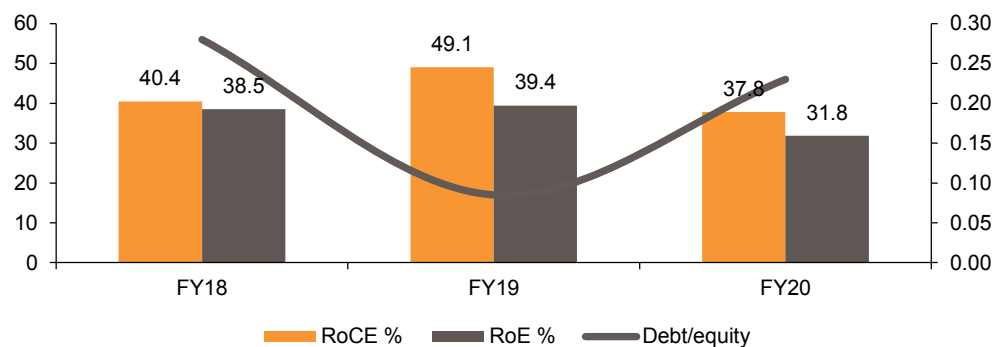
Exhibit 9: Capacity addition has improved revenue base and will continue to do so



Source: Company, Emkay Research, RHP

Strong balance sheet: With a conservative investment approach aided by higher asset turnover, the company has been able to maintain a healthy balance sheet, reflecting from its high return ratios. Average RoE and RoCE have been 37% and 36%, respectively. Debt/Equity ratio remain under 0.3x in the last three years. The company has taken a loan of Rs650mn for its Rs900mn Dahej project which will be paid off with the IPO proceedings, making it virtually a debt-free company.

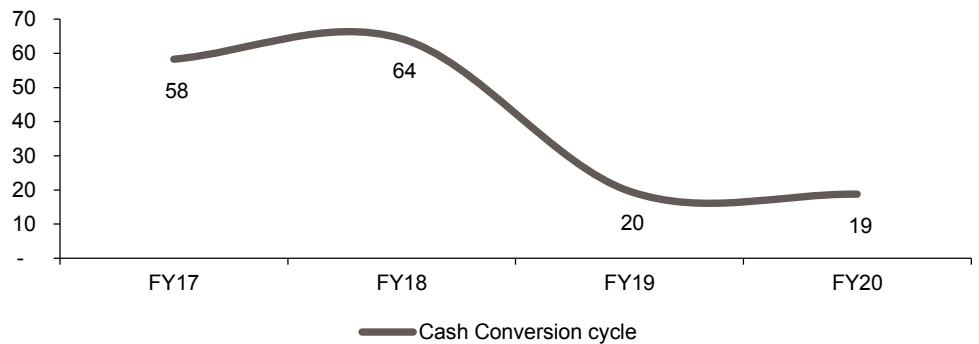
Exhibit 10: Return ratios are higher than industry level



Source: Company, Emkay Research

Fastest cash conversion cycle in the industry: Quick finished product conversion has helped Rossari enjoy the lowest cash conversion cycle in the industry at under 20 days. As per management, most of its products' execution timeline is less than 24hrs which is very low.

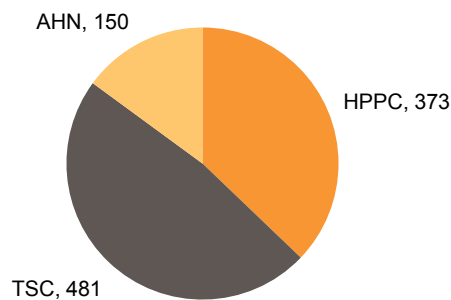
Exhibit 11: Cash conversion has been significantly lower than industry average in last 2 years



Source: Company, Emkay Research

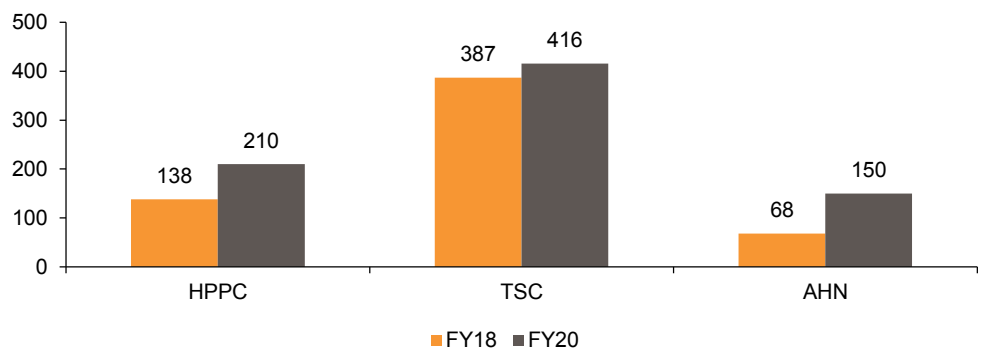
Strong customer base: As evident from below, Rossari’s customer base is skewed toward the TSC segment, where it has served 416 customers of the overall 481 in FY20, and the HPPC segment coming close second, serving 210 of 373 customers. This conveys that with the existing customer base, Rossari can still gain business and drive higher revenue growth in both the segments. However, in AHN, all customers are revenue contributors, and hence any meaningful contribution would have to come from new client orders.

Exhibit 12: Total customer base as of FY20



Source: Company, Emkay Research, RHP

Exhibit 13: Customers served during the period, segment wise



Source: Company, Emkay Research, RHP

Exhibit 14: Strong and diversified customer base

FMCG Companies	Apparel and Textile Companies	Poultry Feed, Animal Feed or Food-Service Companies
RSPL Ltd (Ghadi detergent);	Arvind Ltd;	Hitech Hatch Fresh Pvt Ltd;
IFB Industries Ltd;	Ashnoor Textile Mills Ltd;	Gokul Poultry Industries;
Hindustan Unilever Ltd;	Bhaskar Industries Pvt Ltd;	Sarvottam Poultry Feed Supply Centre Pvt Ltd;
BSH Household Appliances Manufacturing Pvt Ltd;	European Textile Chemical Corporation;	Sneha Farms Pvt Ltd.
CICO Technologies Ltd;	Shahi Exports Pvt Ltd.	
Rentokil Initial Hygiene India Pvt Ltd;		
Millennium Papers Pvt Ltd.		

Source: Company, Emkay Research, RHP

Background

Rossari Biotech is one of the leading domestic specialty chemicals manufacturing companies providing specialized & customized solutions, catering to industrial and production requirements of wide variety of clients mainly in the FMCG, apparel, poultry and animal feed industries complemented with a diversified product portfolio for home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products.

Rossari currently operates in India plus 17 foreign markets including but not limited to Vietnam, Bangladesh and Mauritius. It is the largest manufacturer of textile specialty chemicals domestically, wherein the manufacturing processes are derived and primarily focus on sustainable, yet competitive rules and practices. The core motto of Specialty chemicals, enables prime focus on the functionality plus the application of products forming a key ingredient for customers' manufacturing and industrial processes.

Overall, the business functions is split into three core segments:

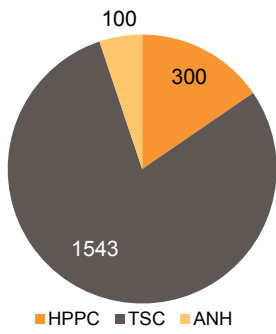
- Home, personal care and performance chemicals (HPPC)
- Textile specialty chemicals (TSC)
- Animal health and nutrition products (ANH)

Being the largest manufacturer of acrylic polymers domestically, at present Rossari manufactures close to 300 end products for clients spread in the ceramics, soaps and detergent, paints, inks and coatings, tiles, water treatment chemicals and pulp and paper industries. Additionally, it manufactures institutional cleaning chemical formulations for facility management, hospitality, airports, corporates, food service, commercial laundry, malls, multiplexes, educational sector etc. It is in the end stages of diversifying the existing home, personal care and performance product portfolio to include water treatment formulations, specialty formulation for breweries as well as dairies. Management has drawn out plans to market certain products in the personal care and cosmetics segments. While Rossari' business primarily revolves in the B2B arena for home, personal care and performance products, it also caters certain end formulations to direct consumers under its private label or in partnership with digital market platforms such as Amazon.

Covid-19 business impact

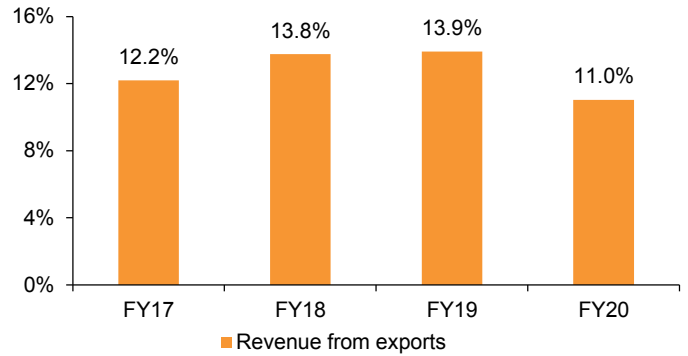
- Manufacturing of disinfectants & sanitizers under the Home, Personal Care & Performance Chemicals enabled Rossari's product portfolio to get categorized as essential goods, which in turn allowed the Silvassa production facility to continue to operate.
- In the initial stages of the lockdown, Rossari faced lack of supply of labor, supply chain breakdowns and logistical issues due to which the Silvassa facility operations were at a sub-optimal capacity in April'20.
- The plant utilization levels subsequently have increased on the back of improved availability and supply of raw material from resumption of operations and supply & logistics becoming more certain.
- The HPPC segment underwent net positive effect owing to higher demand for disinfectants & sanitizers in current environment; subsequently the textile specialty chemicals segment had underwent a temporary muteness in demand.
- Because of Covid-19 pandemic, supply and imports with regards to certain raw materials were constrained but management took immediate steps to substitute domestic suppliers in time and prevented any marginal impact on operational levels.
- Higher levels of inventories may have to be maintained to ensure the continuity of production.
- Some of the customers have requested for extended payment terms due to the lockdown.

Exhibit 15: Product SKU skewed towards TSC; Dahej plant would expand portfolio of performance chemicals



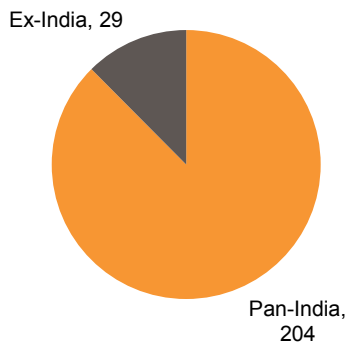
Source: Company, Emkay Research, RHP

Exhibit 16: At 11% export base, company is positive on gaining larger market share in near future



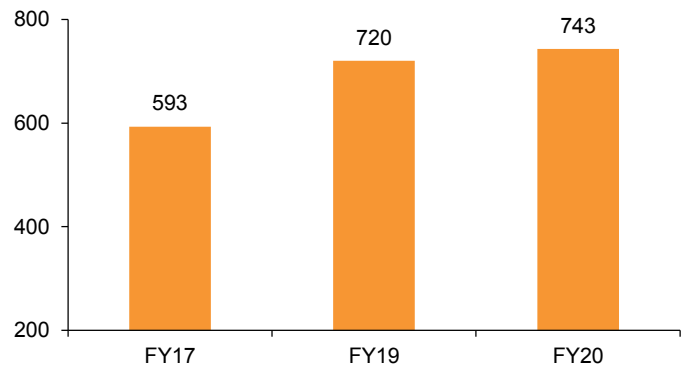
Source: Company, Emkay Research, RHP

Exhibit 17: Strong distribution presence, both domestic and foreign



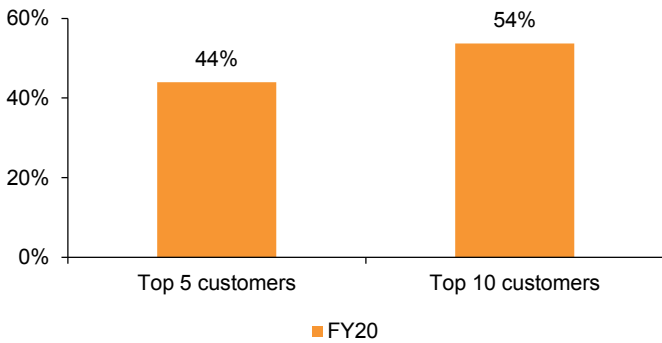
Source: Company, Emkay Research, RHP

Exhibit 18: Total customer base improving on constant basis



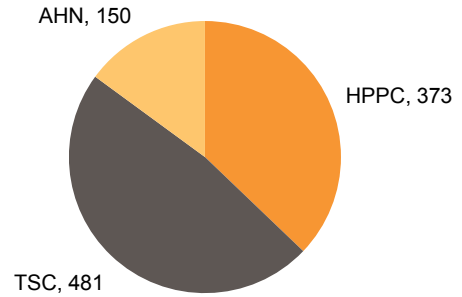
Source: Company, Emkay Research, RHP

Exhibit 19: Top 10 clients make ~50% of the revenue base



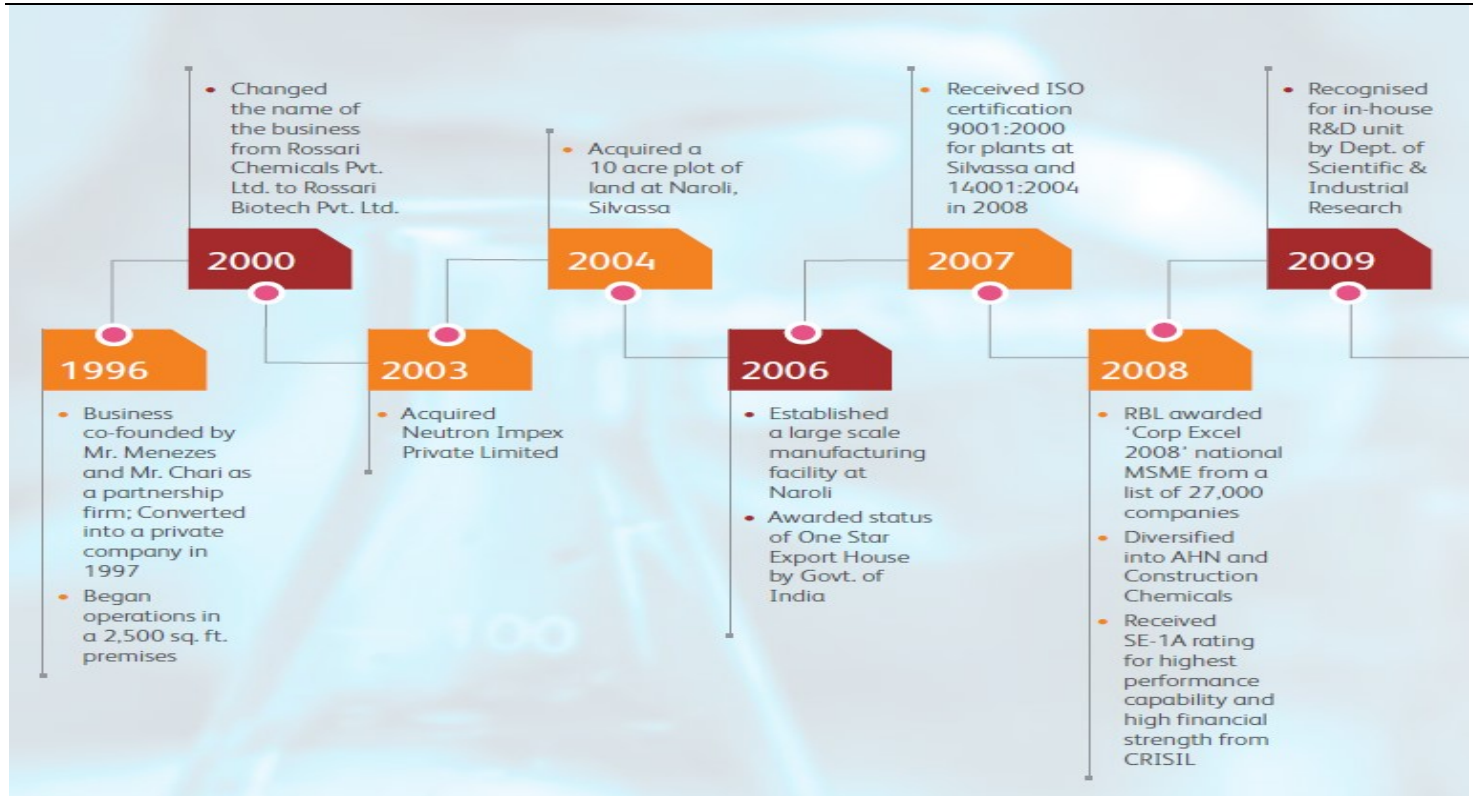
Source: Company, Emkay Research, RHP

Exhibit 20: Customer base segment wise; TSC base is dominant due to Rossari's long-term presence in this space



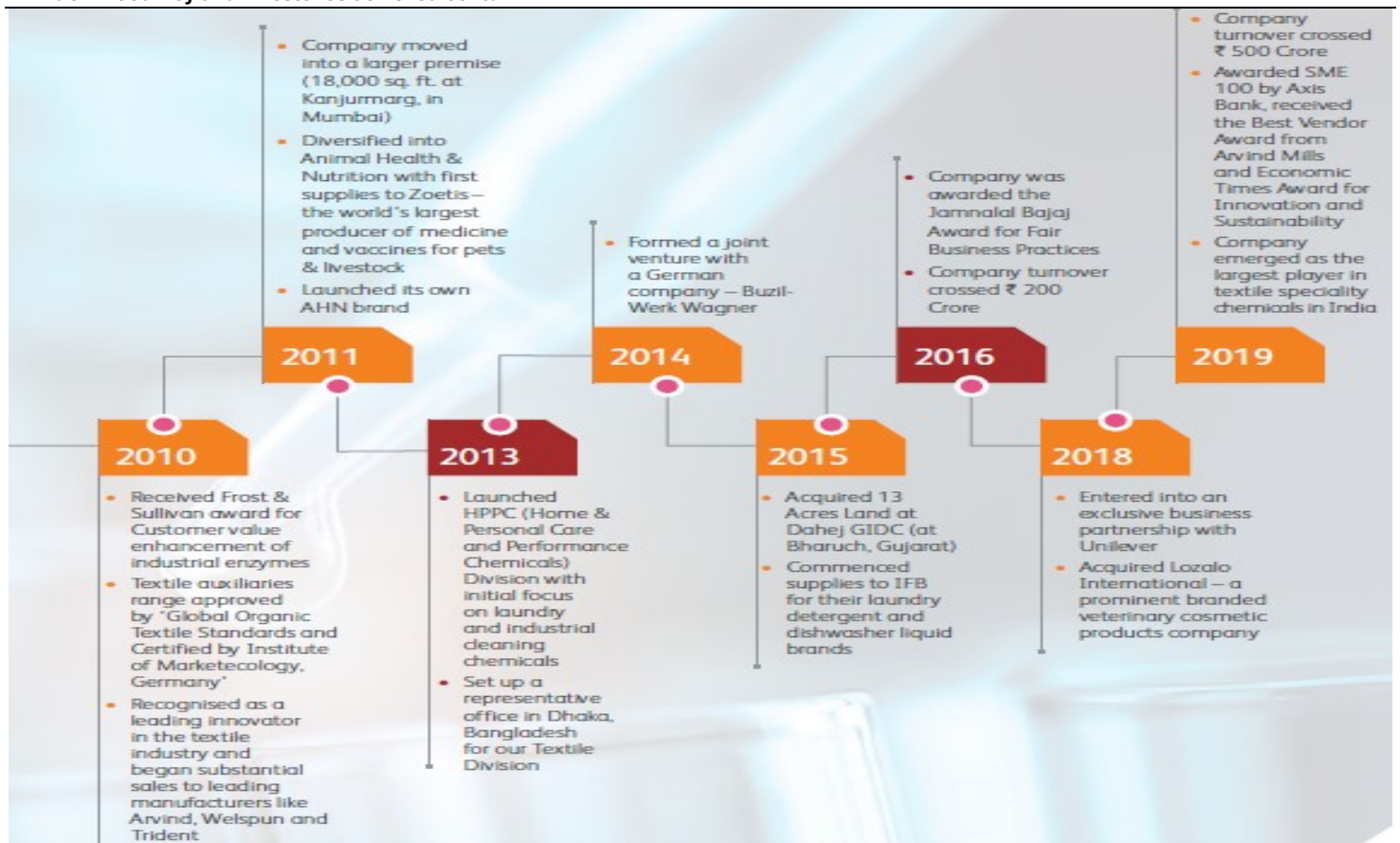
Source: Company, Emkay Research, RHP

Exhibit 21: Journey and Milestones achieved



Source: Company, Emkay Research

Exhibit 22: Journey and Milestones achieved contd



Source: Company, Emkay Research

Exhibit 23: Management profile

Name	Designation	Profile
Mr. Edward Menezes	Executive Chairman/Founder	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	Managing Director/Founder	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.
Mr. Puneet Arora	CEO	He holds a bachelor's degree in commerce from the Ambedkar College of Commerce and Economics, University of Bombay. He has been associated with the company since incorporation.
Ms. Manasi Nisal	CFO	She is a qualified chartered accountant from the Institute of Chartered Accountants of India. Previously, she was associated with Huechem Textiles Private Limited as a General Manager – Accounts and Finance.
Mr. Goutam Bhattacharya	Independent Director	He was appointed on the Board of the Company on December 6, 2018. He holds a masters' degree in management from the Indian Institute of Management, Ahmedabad. He was previously associated with Pulcra Chemicals India Private Limited as a Managing Director and has over 20 years of experience in the specialty chemicals industry.
Ms. Meher Castelino	Independent Director	She joined the Board of the Company on July 4, 2018. She has completed her basic education from Lawrence School Lovedale, University of Cambridge. At present, Ms. Meher Castelino is the director of VIP Clothing Limited and has been associated with them since 2015.

Source: Emkay Research, Company

Home, personal care and performance chemicals

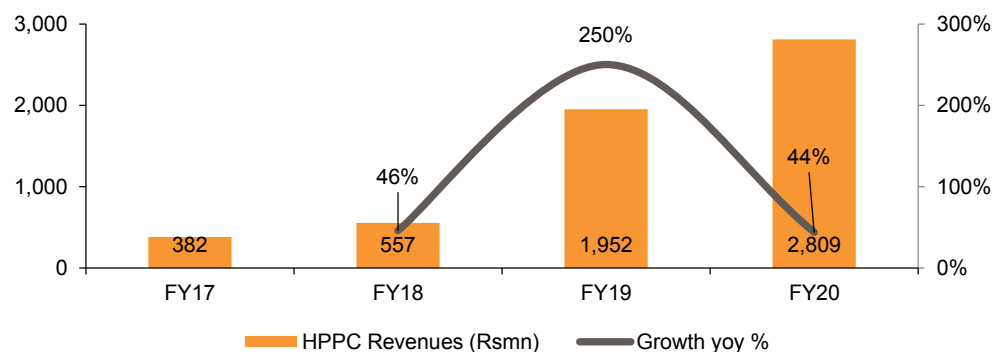
HPPC segment to be main growth driver for Rossari

Rossari produces and supplies home, personal care and performance chemicals to almost ~300 customers. Some of the significant customers for the home, personal care and performance chemical products category include HUL, Panasonic India, RSPL Ltd. also known as Ghadi detergent, IFB Industries Ltd., BSH Household Appliances Manufacturing Private Ltd., CICO Technologies Ltd., Rentokil Initial Hygiene India and Millennium Papers.

The home, personal care and performance chemicals segment domestically is on track of becoming more and more sophisticated, which enables higher penetration and reach. The market continues to be a function of innovations undertaken by MNCs such as Wacker AG, Merck, BASF and Croda. Some of the major domestic companies that produce active ingredients include Aarti Industries (Demerged), Galaxy Surfactants and Atul Ltd. Many Indian players, including the small to medium-sized companies compete in the inactive ingredients market tend to be characterized by lower margins and higher supply compared to active ingredients, due to relatively less complex chemistries and low capex. In the institutional cleaning chemicals, some of Rossari's competitors are Diversey India, Scheveran Laboratories, Satol Chemicals, Ecolab India, Haylide Chemicals, Altret Industries, Croda India Company, and BASF India Ltd.

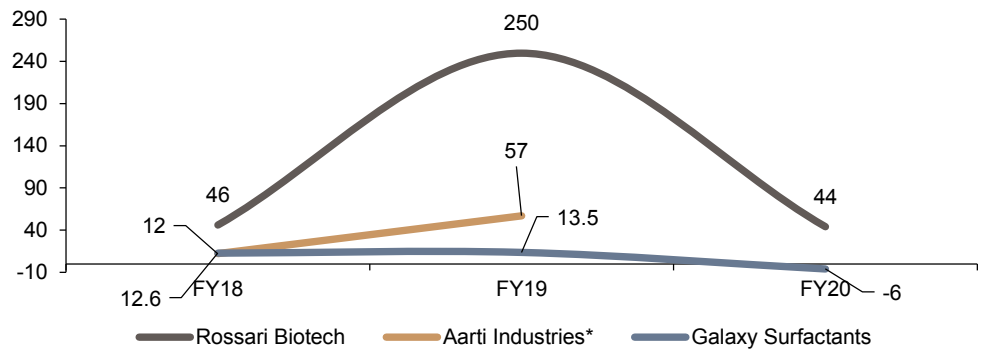
Our view: Rossari's HPPC revenues have grown at a CAGR of 125% (FY18-20) and contribution of this segment has increased from 19% in FY18 to 47% in FY20. Better margin in the segment helped overall EBITDA margin profile of Rossari to improve from 15.4% to 17.5%, an uptick of 210bps, during the same period. The gross margins accruing from this segment are in the range of 30-40%, as per management. Management is confident of the demand environment to sustain in the near to medium term, given the demand for sanitization products is at an all-time high, which shall boost the demand for health and hygiene products where Rossari has presence. Although the Dahej plant would be a fungible plant, most part of the new resources would be allocated to the production of performance chemicals, in a bid for Rossari to undertake additional business opportunities and subsequently establish higher market share. In efforts to further diversify its product portfolio in the HPPC business, Rossari plans on adding specialty formulations in the breweries, dairy, personal care, cosmetics and water treatment chemicals. Plans for developing tiles and cement formulations have been deferred due to the muted and uncertain current environment for such end products. We believe that HPPC would continue to be a high-margin business and any growth in topline would meaningfully add to the profitability, given premium margin conversion rates, further strengthening the return ratios. We expect the HPPC segment to deliver high double-digit growth in the next 2-3 years and revenue could grow at >30% CAGR over FY20-23E with Dahej utilization reaching full capacity.

Exhibit 24: HPPC growth to take a leap after Dahej capacity addition



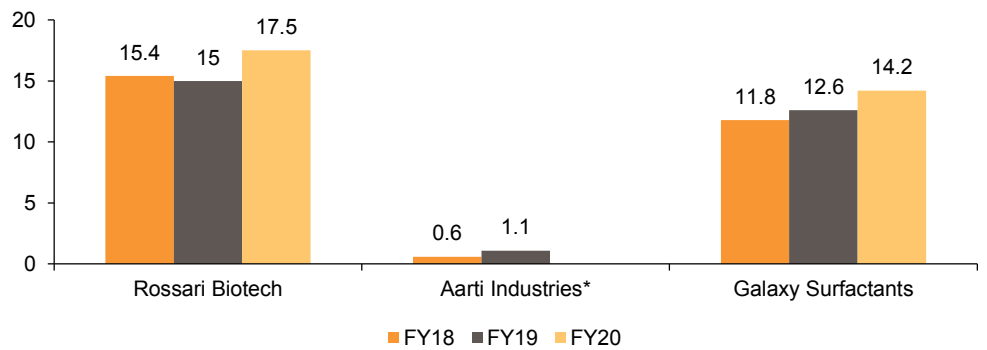
Source: Company, Emkay Research, RHP

Exhibit 25: Revenue growth (yoy%) has been tepid in FY20 on challenging macro environment



Source: Company, Emkay Research, *HPC segment considered for Aarti (demerged)

Exhibit 26: EBITDA margins (%) trend has been mixed



Source: Company, Emkay Research, * HPC segment EBIT margins for Aarti (demerged)

Exhibit 27: Rossari’s HPPC product value chain

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 cake and others
Paints and coatings	Different types of acrylic emulsions
	Different types of additives
	E.g. Dispersing agent thickeners, defoamer and wetting agents, etc.
Ceramics and tiles	Body binder
	Deflocculent
	Polishing agent
	CMC
Pulp and paper	Acrylic emulsions
	Additives
	E.g. Dispersing agent, DSR, cross linking agent and various products for water treatment
Proposed	
Cement and construction chemicals	Specialty additive for cement processing
Water treatment formulations	Boiler chemicals
	Cooling tower chemicals
	RO chemical
	Waste water treatment
Specialty formulation for breweries as well as dairies	Hinder bacterial growth
	Break molasses
	Cleaning sugar syrup
Sanitizers for electronic gadgets	Mobile-antibacterial sanitizers for screens
	Non-alcohol sanitizers

Source: Company, Emkay Research, RHP

Exhibit 28: Rossari's HPPC segment competition

Large MNCs	Large-Medium Indian Players
Large MNCs have a significant presence in the India market	Large Indian players are competing with large MNCs across various products
These companies usually have a larger product portfolio as compared to their Indian counterparts	These companies typically have in-depth market understanding, strong distribution network and established customer base
List of Companies	List of Companies
Wacker AG	Aarti Industries
Dow	Galaxy Surfactants
Merck	Atul Industries
DuPont	
DSM	
BASF	
Croda international	
Huntsman corporation	

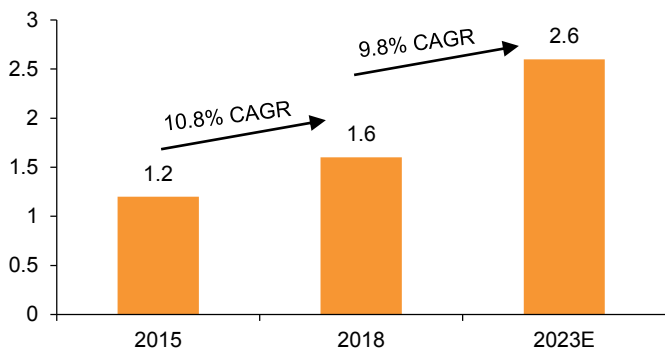
Source: Company, Emkay Research, RHP

Indian Home Care Segment Market

The Indian home care ingredients was valued at USD 1.2bn in 2015 and grew at a CAGR of 10.8 which grew to USD1.6bn in 2018. The ingredients market was driven by rise in demand for the home care products in India, which has substantially increased over couple of years owing to heightened awareness for health and hygiene, as well as substantial uptick in per capita disposable income.

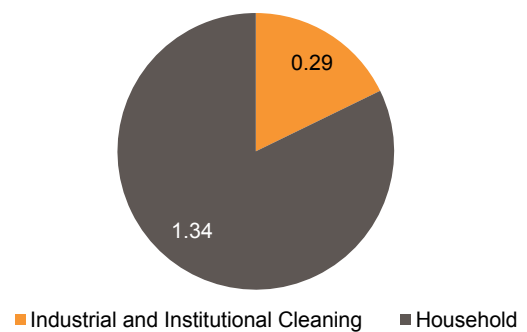
Together, these factors have prompted the sales of cleaning products to grow at double-digit figures in certain economies in the past few years. As a result, sales of ingredients which are used in such products have also witnessed a strong traction in similar periods. Some of the key players operating out of the homecare ingredients segment are Altret Industries, Schevaran Laboratories, Satol Chemicals, Diversey India, Ecolab India, Buzil Rossari, Haylide Chemicals, Croda India Company, and BASF India Ltd, among others.

Exhibit 29: Indian Home Care Ingredients Market (USD bn)



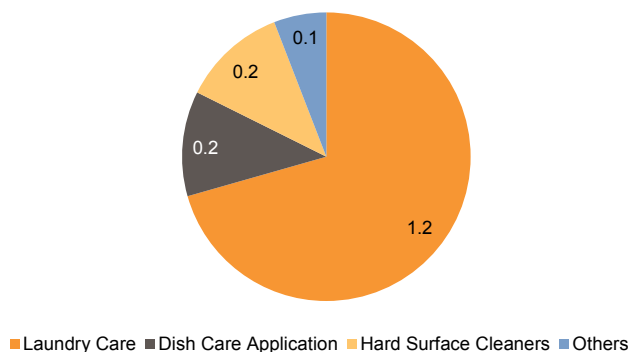
Source: Company, Emkay Research, RHP

Exhibit 30: Indian Home Care Ingredients segmentation (USD bn)



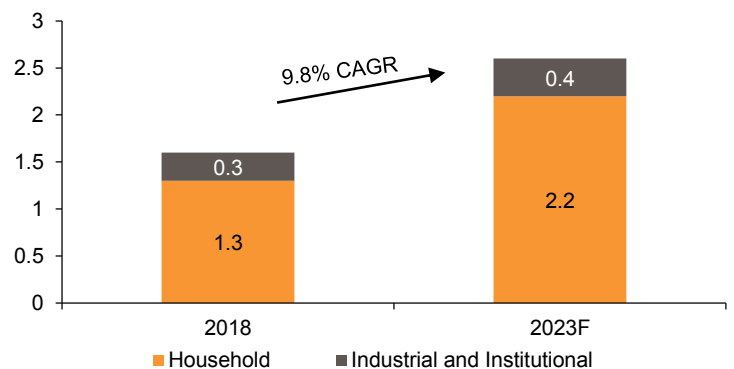
Source: Company, Emkay Research, RHP

Exhibit 31: Laundry care largest segment in HPPC; Rossari has presence in both dry and liquid laundry cleaners



Source: Company, Emkay Research, RHP

Exhibit 32: Indian Home Care Ingredients Market forecast (USD bn)



Source: Company, Emkay Research, RHP

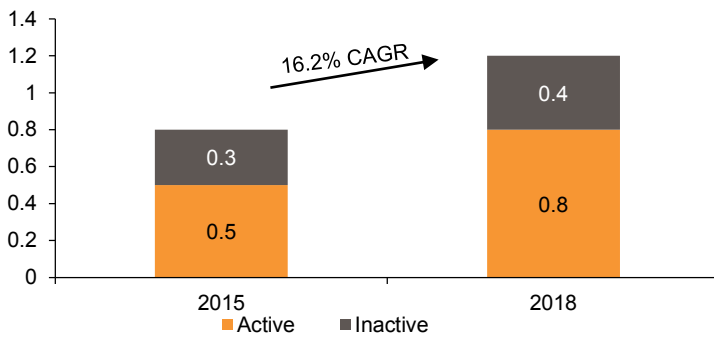
Indian personal care market

Indian Personal care ingredients market, grew from USD0.8 bn in 2015 at 16.2% CAGR to USD1.2bn in 2018. In the next five years, the industry is estimated to grow ~15% and reach USD2.2bn by 2023. Such high growth rates in 2015-18 period was backed by better domestic economic conditions and improving purchasing power of the domestic population.

At present, active ingredients contributes close to ~35% of total personal care ingredients market. This share is estimated to grow, owing to higher consumer awareness with regards to quality ingredients and surge in desire for premium quality end products. The domestic economy is witnessing improved traction for higher end, discretionary and prestige brand name products, which typically is a function of higher value active ingredients and enables higher growth in market due to increased pricing. For instance, premium brands made up ~50% of the freshly launches in the personal care space, driven by increasing disposable income, rising young working population and penetration in organized retail.

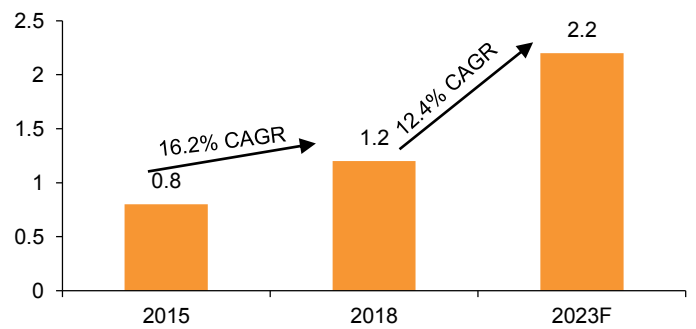
India's personal care ingredients market continues to be dominated by northern region, arising from large presence of cosmetic and beauty product manufacturers in states such as Himachal Pradesh and Uttarakhand. Furthermore, improving standards of living and growing consumer spending in Tier I/II cities are among the major factors to influence growth of personal care ingredients in India.

Exhibit 33: Indian Personal Care Ingredients Market size (USD bn)



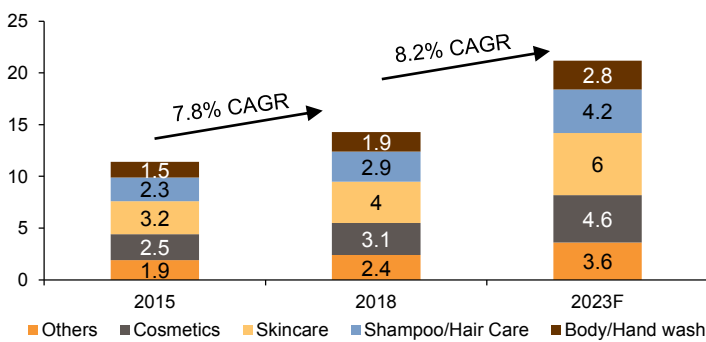
Source: Company, Emkay Research, RHP

Exhibit 34: Indian Personal Care Ingredients Market forecast (USD bn)



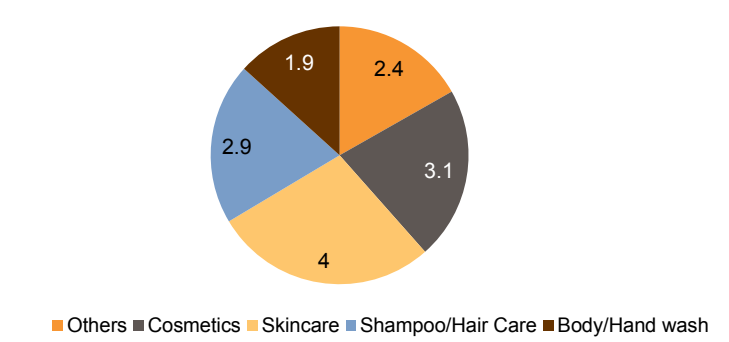
Source: Company, Emkay Research, RHP

Exhibit 35: Indian Personal Care Market forecast (USD bn)



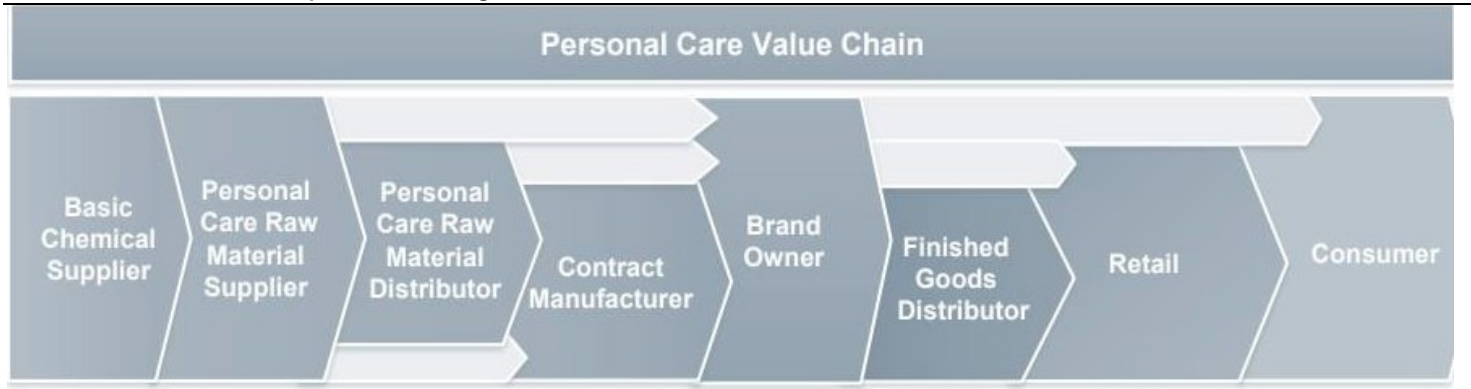
Source: Company, Emkay Research, RHP

Exhibit 36: Body/Hand wash segment largest segment in personal care segment



Source: Company, Emkay Research, RHP

Exhibit 37: Value chain in the personal care segment



Source: Company, Emkay Research, RHP

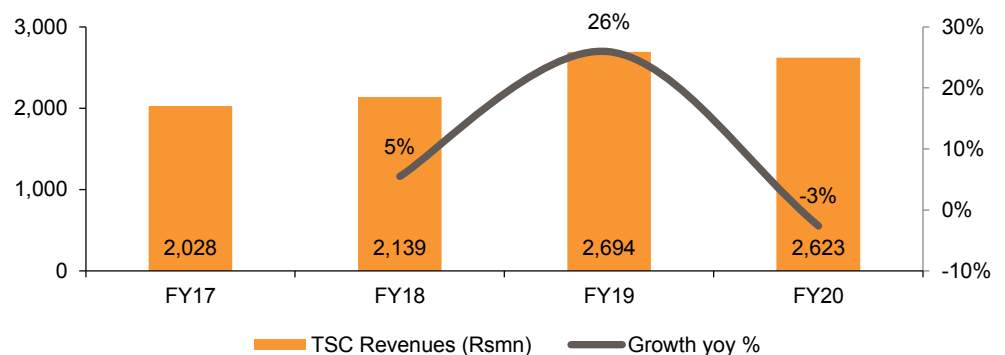
Textile chemicals

Leadership in TSC business to sustain with expansion efforts

Rossari supplies specialty chemicals which cater from start to end of the value-chain of the textile segment including but not limited to fiber, yarn to fabric, wet processing and garment processing and contains close to ~1,500 products for customers in segment. Product differentiation is achieved by providing diversified and value added specialty chemicals which improve hydrophilic properties, anti-microbial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties for the textiles. Rossari currently manufactures and supplies textile specialty chemical products to 335 customers spread across 15 destinations around the globe. Some of the significant customers for textile specialty chemical products category include Raymond Ltd, Arvind Limited, Ashnoor Textile Mills Ltd, Bhaskar Industries, European Textile Chemical Corp. and Shahi Exports.

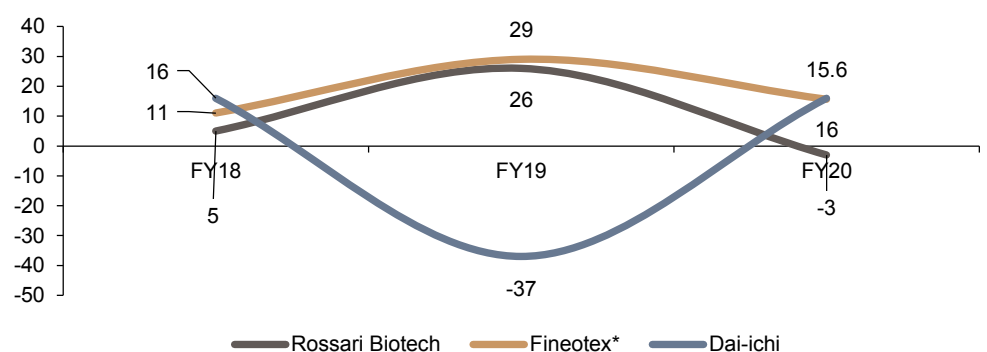
Our view: Industry leadership and steadfast nature of the TSC business is what created a solid base for Rossari in order to further diversify into other chemistries. With a domestic market share of ~6% of a ~Rs50bn market, revenues from this segment have grown at CAGR of 11% in FY18-20, slightly tapering off in FY20 on account of slowdown in demand in the textiles industry. TSC segment being highly fragmented market, it is a relatively low margin business compared to other segments, although it remained steady performer. The contribution of TSC has been constantly declining from 78% in FY17 to 44% in FY20 with HPPC taking the lead, management expects the business to grow at a marginally faster pace than domestic industry growth rate (~9-10%). We expect the business to face minor headwinds, given the economic slowdown and reduced demand and similarly margins to remain muted in the medium term given the cost competitiveness nature of this business. China continues to be a major competitor in this space for Rossari and any trade decision to reduce Chinese imports would certainly play out well for the company in the long run. Rossari would continue to differentiate itself from competition, both domestic and foreign, on the basis of technical competence, R&D and client servicing.

Exhibit 38: Larger revenue base in recent period would result in industry level growth



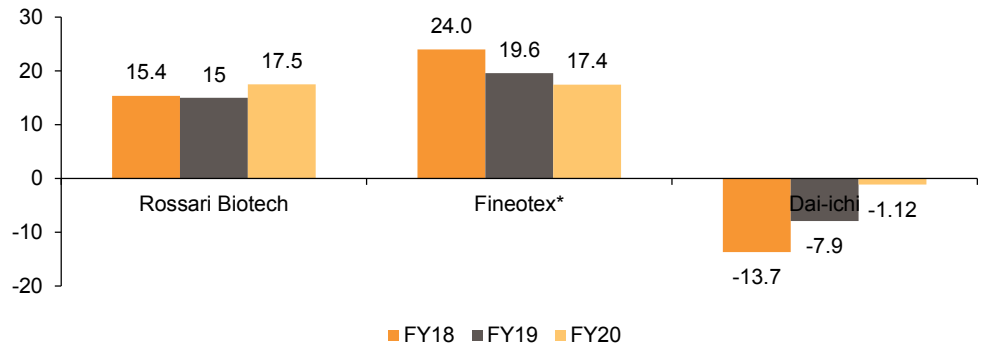
Source: Company, Emkay Research, RHP

Exhibit 39: Revenue growth yoy (%) trend mixed for TSC business



Source: Company, Emkay Research, *9MFY20 for Fineotex

Exhibit 40: EBITDA margins under pressure for competition



Source: Company, Emkay Research, *9MFY20 considered for Fineotex

Exhibit 41: Rossari’s Textile chemical value chain

Stage	Products application
Yarn production	Yarn dyeing and finishing
	Yarn lubricants
	Performance enhancers
Man-made fibre production	Lubricants
	Water based and non-water based
	Antistats
	Antimicrobial
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 product based on complex combination of chemistry of wetting, sequestering and dispersant sustainable chemistry focus
	Dyeing auxiliaries
Dyeing auxiliaries	Full range of products based on dispersant, chelating agents and levelling agents
	Finishing range
Finishing range	Comprehensive pre-treatment range of product based on complex combination of chemistry polymer science and nano technology
	Performance products
	Enzymes and biochemical finishing range
Garment finishing	Comprehensive pre-treatment range of product based on complex combination of chemistry polymer science and nano technology
	Performance products
	Enzymes and biochemical finishing range
Printing	Comprehensive range of product based on complex combination of chemistry polymer science and Nano technology
	Performance products
	Enzymes and biochemical printing range

Source: Company, Emkay Research, RHP

Exhibit 42: Textile Chemicals stages of production

Stages	Process	Product Categories
Spinning and weaving	Spinning: Conversion of Cotton or any other fiber into yarn	Polymers, Softener
Pre-treatment	Textile pre-treatment is the series of cleaning operations. All impurities which causes adverse effect during dyeing and printing is removed in pre-treatment process	Enzymes Wetting & Detergent Sequestering Additives
Dyeing	Chemicals are applied to increase process safety, efficiency and reproducibility for production, so as to achieve the desired optimum dyeing results	Dyes, Acids, Alkali Levelling, Detergent, Fixer
Printing	Pigments and inks are applied to impart the desired color to textile	Dyes, Binder, Thickener, Fixer Detergent, Loop accelerator
Finishing and coating	Completes the fabric's appearance and gives it the "final touch". Special effects are produced during this process, such as wrinkle-free, easy-care, shrink resistance or a gloss effect (chintz)	Softeners, Silicones, Polymers, Resins

Source: Company, Emkay Research, RHP

Exhibit 43: Potential/Current customers in Textile Chemicals Segment in India

End Product	Large Customers	Mid-Small Customers
Textiles	Vardhaman Textiles	Winsome Textile Industries Limited
(Yarn, Fabric, Garments, Home Textiles, etc.)	Arvind Limited	TC Terrytex Limited
	Vimal Industries	Malwa Industries Limited
	Reliance Textiles	Sutlej Textiles and Industries Limited
	Grasim Industries Limited	Nahar Textiles Private Limited
	Trident Group	GHCL Limited
	Raymond Limited	Banswara Syntex Limited
	Welspun India Limited	Morarjee Textiles Limited
	Bombay Dyeing	

Source: Company, Emkay Research, RHP

Exhibit 44: Rossari's textile chemicals competition

Large MNCs	Large Indian Players	Smaller Indian Companies
Large MNCs have a significant presence in the India market	Large Indian players are competing with large MNCs across various products	These companies are usually characterized by restricted geographical presence and a limited product portfolio
These companies usually have a larger product portfolio as compared to their Indian counterparts	These companies typically have in-depth market understanding, strong distribution network and established customer base	These companies usually position themselves as low cost alternatives to MNCs and larger Indian players
List of Companies	List of Companies	List of Companies
Archroma	Rossari Biotech Limited	Dai-ichi Karkaria
CHT	Fineotex Chemical	Britacel Silicones
Rudolf	Resil Chemicals	Indokem Limited
Croda international	Sarex Chemicals	
Huntsman Corporation		

Source: Company, Emkay Research, RHP

Indian textile chemical market

India holds the second rank as the largest exporter for textiles globally. Demand for textile chemicals in the country is characterized by rising global and domestic demand for high-quality textile end products, rising production, pro-government policies and higher garments sourcing from India by international brands. Future growth prospects in this industry will be primarily driven by diversified value-added specialty chemicals that provide sustainable eco-friendly solutions.

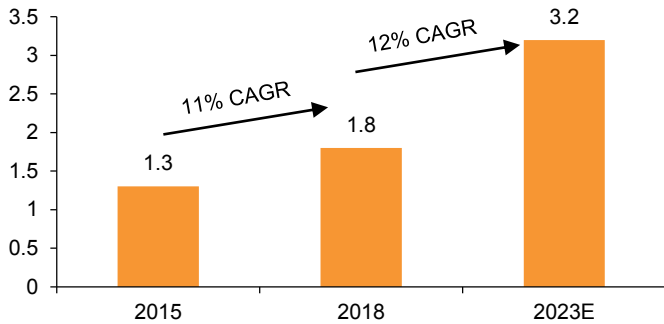
Domestic apparel market size is expected to grow at a CAGR of 11% from ~USD70bn in 2018 to USD118bn in 2023. Growth prospects are characterized by a solid growth in the organized apparel segment and entry of newer foreign competition such as H&M, Marks & Spencer, and Zara.

Industry Growth Drivers

Home Furnishing Textiles Creating a Sustainable Marketplace: Booming worldwide economy has led to a decent uptick in disposable income in major parts of the globe which has enabled people to spend on lavish home furnishing textiles and floor coverings including carpets.

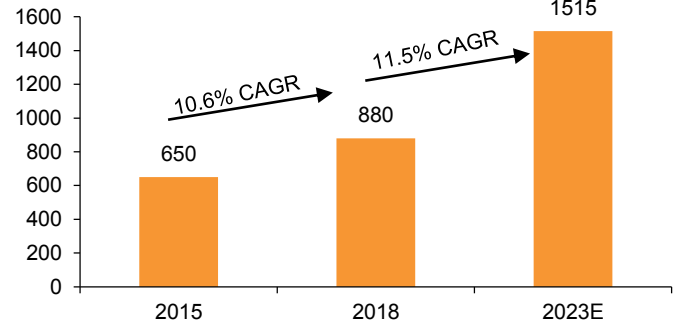
Cotton Production promising across the Globe: Global cotton output is estimated to rise by ~7% in the year 2019-20. Furthermore, it is also projected that global cotton consumption may exceed production in coming periods. Incremental consumption is partly attributed to the higher utilization of cotton in the textile industry in order to manufacture apparels and home furnishing products that will lead to rising demand for textile chemicals.

Exhibit 45: Indian Textile Chemicals Market size (USD bn)



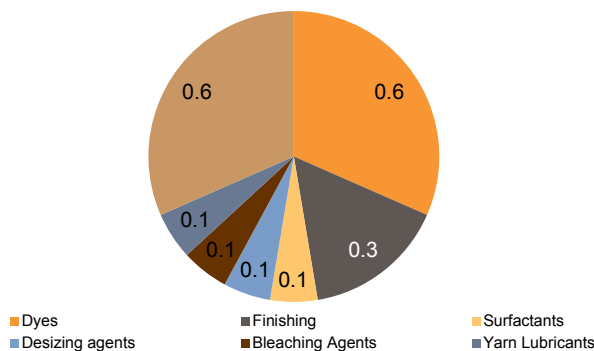
Source: Company, Emkay Research, RHP

Exhibit 46: Indian Textile Chemicals Market (Volume Kilo ton)



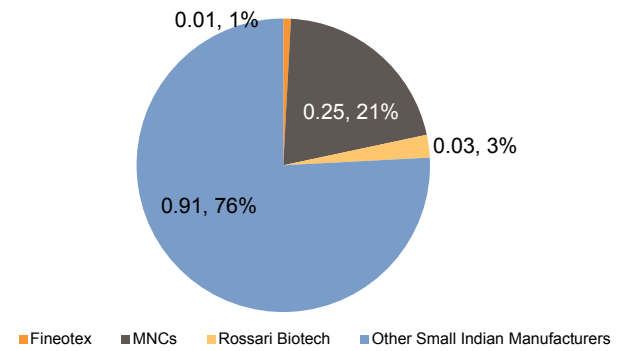
Source: Company, Emkay Research, RHP

Exhibit 47: Indian Textile Chemicals end application split (USD bn)



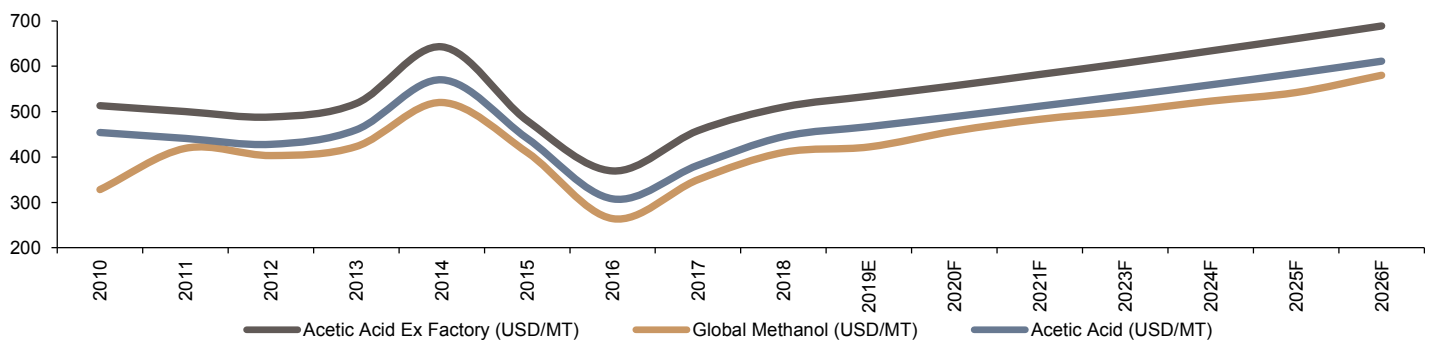
Source: Company, Emkay Research, RHP

Exhibit 48: Indian Textile Chemicals Market by companies (USD bn)



Source: Company, Emkay Research, RHP

Exhibit 49: Textile chemical Raw material prices



Source: Emkay Research, Company, RHP

Animal health and nutrition

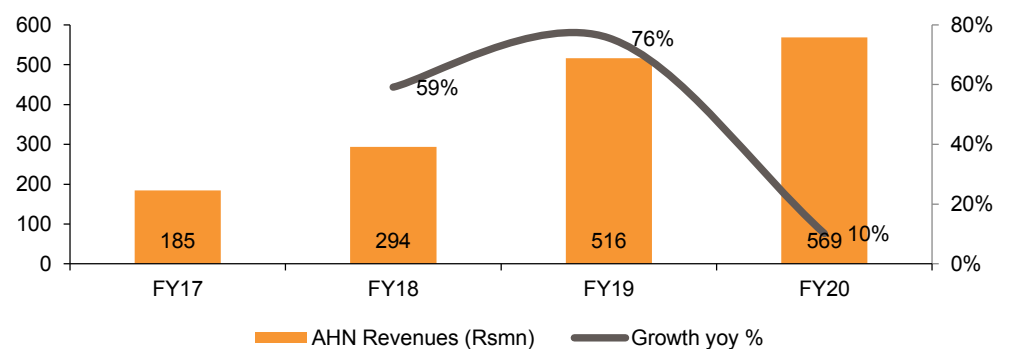
Niche segment, with high growth possibilities

Given good opportunities that the management sees, Rossari has diversified into animal health and nutrition and currently produces and sells poultry feed supplements and additives, pet grooming and pet treats for weaning, infants and adult pets and currently manufactures over 100 products for customers within this segment. It has forayed into pet grooming sub-category pursuant to acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in Fiscal 2019. Most of the the products under the animal health and nutrition category are completely manufactured in-house from scratch, while the pet treats specifically are manufactured throughout sourced contracts. Rossari sells poultry feed end products using a B2B model and the pet grooming and pet treat products to retail shop owners, through external distributors.

Some of the significant customers for the animal health and nutrition products category include Hitech Hatch Fresh, Gokul Poultry Industries, Sarvottam Poultry Feed Supply Centre and Sneha Farms. In the animal, health and nutrition products category, Rossari competes with Cargill India, Zydus AH, a division of Cadila Healthcare Ltd., Bayer Animal Health, Boehringer Ingelheim Animal Health, Ceva Sante Animale, Sequent Scientific, Elanco, Merial and Virbac.

Our view: Currently, the AHN segment is a small business for Rossari but has almost double the realization compared to TSC and HPPC segments. Revenue has grown at 39% CAGR over FY18-20 to Rs569mn. We expect the segment to grow ~20% CAGR over FY20-23, largely due to lower base and will remain a small contributor for the overall business as pet grooming market in India is still at its nascent stage.

Exhibit 50: Improvement in AHN revenue base would benefit margins due to better realization



Source: Company, Emkay Research, RHP

Exhibit 51: Rossari's Animal Health and Nutrition value chain

Industry	Product application
Poultry feed	Enzymes
	Vitamin premix
	Trace minerals
	Toxin binders
	Acidifiers
	Liquid essential oil
	Liquid acidifiers
	Disinfectants
	Anticoocci and AGP
Pet grooming	Lozalo shampoo for dogs, cats and horse
Pet treats	Dog and cat treats (chicken, meat, fish, milk, carrot, paneer)

Source: Company, Emkay Research, RHP

Exhibit 52: Potential/Current customers in the Animal Health and Nutrition segment

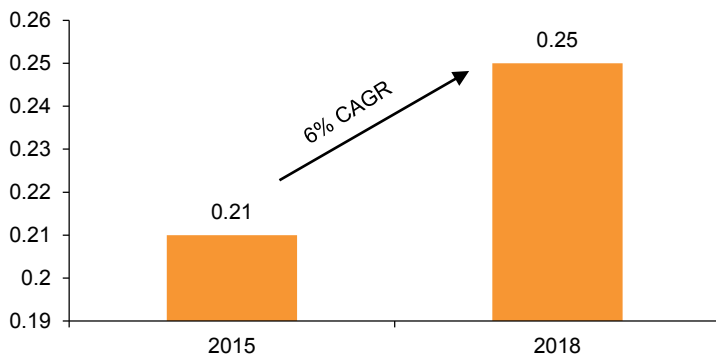
End Product	Customers
Animal Feed - Poultry, Cattle, Aquaculture etc.	Godrej Agrovet Ltd.
	Uttara Foods & Feeds Pvt Ltd. (Venkateshwara Hatcheries Group)
	Sugana Foods Pvt Ltd.
	Avanti Feeds Ltd.
	CPF India Pvt Ltd.
	Venky's
	Jubilant Life Sciences
	KSE Ltd.
	Indian Broilers Group
	Kapila Krishi Udyog Ltd.

Source: Company, Emkay Research, RHP

Indian Animal Health and Nutrition Market

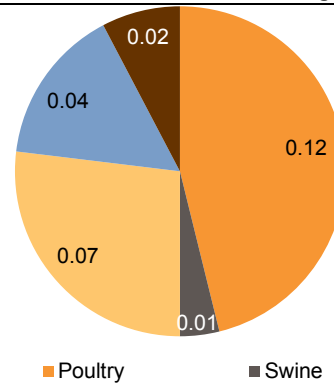
Indian Animal and Pet Nutrition Ingredients segment is one of the world's fastest growing feed additives market. Factors such as Health-consciousness among end buyers and rise in demand for animal protein are pushing up the demand for high quality meat products. Elevated awareness among producers of livestock and flexibly adapting to up to date animal farming practices to service the growing demand are surely bound to provide an upward push for feed additives demand. The domestic market for animal and pet nutrition ingredients in 2018 was ~USD0.25bn.

Exhibit 53: Indian Animal and Pet Nutrition Market size (USD bn)



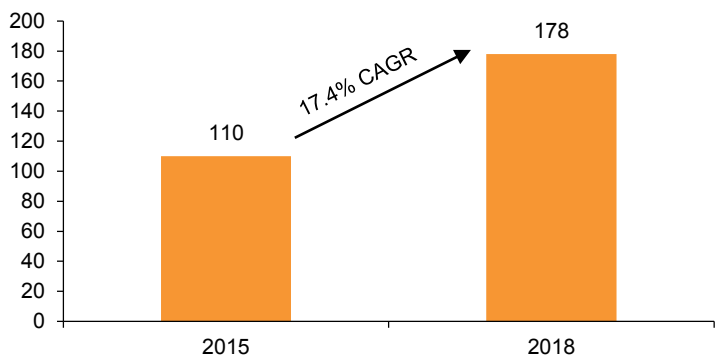
Source: Company, Emkay Research, RHP

Exhibit 54: Indian Animal and Pet Nutrition segments (USD bn)



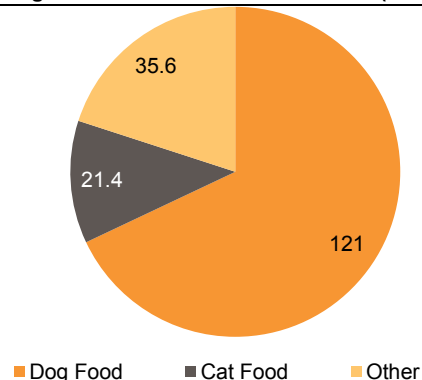
Source: Company, Emkay Research, RHP

Exhibit 55: Indian Pet food Market size (USD mn)



Source: Company, Emkay Research, RHP

Exhibit 56: Segments of Indian Pet Food Market (USD mn)



Source: Company, Emkay Research, RHP

Growth Drivers

The wide base of chains of supermarkets, hypermarkets, pet-specialty stores, vet clinics, convenience stores and other retail chains in developed economies is improving the availability of pet food. E-commerce growth in pet food packaging remains a key trend that is gaining traction in the market. Online sales of pet food products have grown significantly in periods resulting from younger demographic becoming the dominant segment of pet owners.

Pet humanization is a key factor for the growth in pet food market. These days' owners treat their pets as part of their family and do not shy away from spending extra amount on high-quality food, health, and hygiene products to fulfil a pets' physical and emotional needs. The personal connection and affection toward pets influences the amount of expenditure toward fulfilling the needs of the pets.

There is an uptrend in usage of organic pet food and the market is expected to grow at decent pace, providing ample of opportunities for market participants. Growing phenomenon of humanizing pets, creates a consistent demand for nutrition-based premium pet food. Pet owners in developed countries, particularly in Western economies, are becoming mindful of the ingredients in pet foods that play a key role in their overall wellbeing.

Competitive strengths of the company

Strong diversified product portfolio addressing the needs of long-standing customers across sectors: Rossari serves a number of customers' needs spread across a diversified industry base such as FMCG, apparel, and poultry and animal feed sectors, supplemented by wide product portfolio base comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. For e.g., in the home, personal care and performance chemicals category, it currently manufactures and sells ~300 products for customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries

Largest textile specialty chemical manufacturer in India: Rossari is the largest manufacturer of textile specialty chemicals in India having market share of ~6% in a highly fragmented and unorganized segment. It manufactures and sells specialty chemicals for the entire value-chain of the textile industry including but not limited to products for yarn production, production of man-made fiber, thread production, digital printing, fabric processing, dyeing auxiliaries, finishing range, garment finishing to products for printing.

Solid manufacturing and technical capabilities: Rossari manufactures bulk of the products at its Silvassa production base. This facility has an installed capacity of 120,000 MTPA with the additional capacity of 20,000 MTPA being recently operationalized in 2020. The Silvassa facility has fungible and flexible production capabilities for powders, granules and liquids that enables Rossari to produce any of the products at any stage of operation, on the basis of ever changing needs and requirement of clients (fungible in nature). It also is currently setting up another manufacturing facility at Dahej, Gujarat with a planned installed capacity of 132,500 MTPA (to be commercialized in two stages) to grow its overall manufacturing capability and meet its strategic long-term plans. The Dahej facility will also enjoy close proximity to deep-water, multi-cargo port of Dahej which entails cost and logistical savings.

Strong R&D capabilities with focus on innovation and sustainability: Rossari has two R&D facilities – one within the Silvassa facility and another one in Mumbai and a dedicated team of 22 employees in the R&D facilities. The R&D covers all the three aspects of products - synthesis research, formulation and development, and technical service.

Wide sales and distribution network: Rossari believes that growth in business has been possible by widespread sales and deep distribution network. Its pan-India distribution network consists of 194 distributors. The firm operates on a B2B or B2B2C model for home, personal care and performance chemicals, and textile specialty chemicals product categories. It also has a wide network of 17 distributors spread over nine states for the home, personal care and performance chemicals in India. In the textile specialty chemicals product segment, Rossari sells products through a network of 108 distributors spread over 13 states in India and through 17 overseas distributors spread in 15 countries including in the USA, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey. It has established international offices in Ho Chi Minh City, Vietnam and Dhaka, Bangladesh as these two markets are the main avenues for textile chemical products. For the animal health and nutrition products, Rossari sells poultry feeds through a B2B model and pet grooming and pet treat products through retail shop owners including 33 distributors.

Key risks

Highly concentrated on the Textile Industry – Close to half the sales (FY20; 42%) from the sale of Textile Specialty Chemicals and 44% from HPPC. Any structural weakness in the Textile Industry, domestic or globally, would undesirably affect the operations, profitability and liquidity. Due to the textile industry's fundamental elasticity and competitive nature, any slowdown would result in shift of demand of key clients towards cheap alternatives.

Concentrated customer revenues sources – A bigger portion of sales is derived from limited number of customers, which gives way to several risks, such as harmful terms negotiated, loss in number of customers, which in turn would underplay the firm's operations.

Criticality of a single manufacturing base – The firm operates a single manufacturing unit out of Silvassa, with a current capacity of 120,000 MTPA. Operational, financial, political and climate risks are always looming around for such manufacturing facilities. Any incident could pose a strong disruption to the company's day to day processes. The company is in the process of establishing new manufacturing facility at Dahej, which shall be operational by 2021.

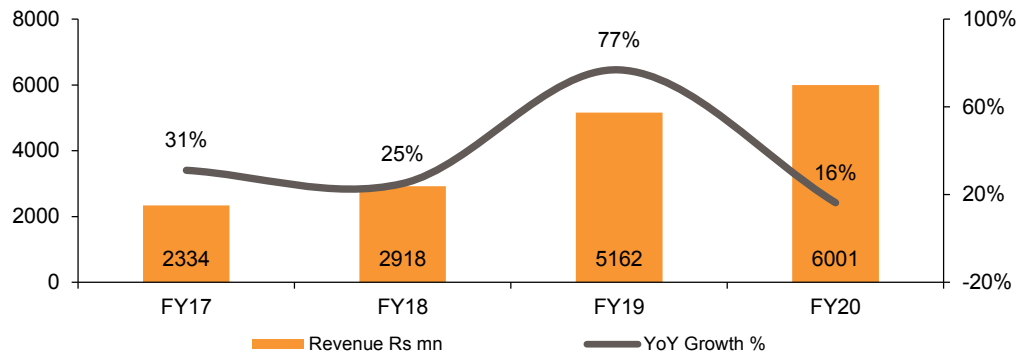
Absence of long term agreements with main customers – Rossari does not at present have any long term fixed contracts with any of its customers, large or small, and instead relies on short term purchase orders meaning terms and conditions which are specific client to client. In some cases, the firm also works close to pre-specified drawn out frameworks with customers, in order to meet pre-defined guidelines to adhere to (except quantity/price). Major decisions are then decided on the basis of management's visibility on oncoming demand/supply from key customers, which includes a number of variables.

Strategic partnership with Buzil – The firm holds majority interest in the joint venture entered with Buzil-Werk, for the institutional cleaning business, among other things. However, as with majority control, positive outcomes for Rossari's operations are not 100% possible, in cases where economic/business objectives are not agreeable between working parties.

Financial performance

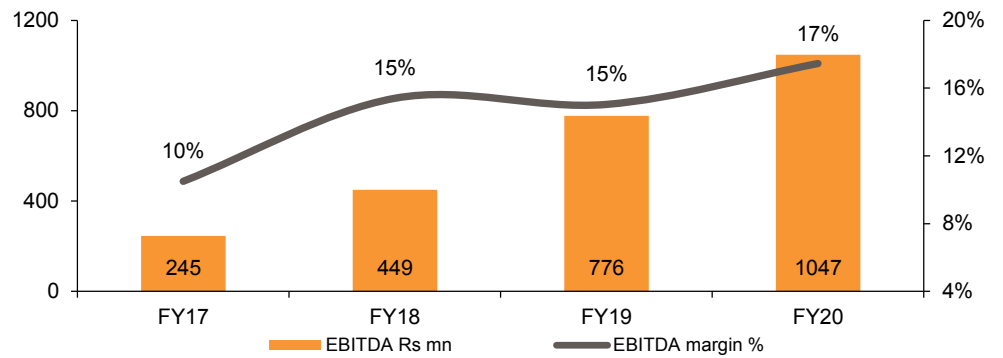
Our view: Rossari Biotech is at crossroads to capitalize on the specialty chemicals sentiment and shift in opportunity from developed economies, in order to increase market share in both domestic and export markets. Relatively faster growth in profitability on improving revenue base (CAGR 31%/51%/78% Revenue/EBITDA/PAT) shows management's discipline to grow bottom-line, without making topline the core motto. This has enabled the company to showcase its ability to persistently deliver high return ratios (RoE/RoCE 25%/32%), and management aims to maintain this philosophy. With the new facility partly commercialized at Dahej, which shall provide ample of fungible capacity for Rossari's organic growth possibilities complemented by the high asset turnover ratios (~6x), we expect Rossari to generate incremental revenues of ~Rs5.40bn (90% of FY20 sales) in the next 3-4 years, at full utilization levels. Given the first generation, cost conscious, debt averseness nature of the promoters, we expect FCF (~Rs1bn in FY20) accrued in the medium to longer term, to be effectively deployed into more complex, longer chemistries, allowing the company to move up in the ranks of larger specialized players and this may moderate the turnover ratio in medium term. In addition, the set-up of Rossari Personal Care and Products subsidiary (60% holding) and appointment of high caliber management (ex-HUL), is a step-up in strategy to display long-term vision by building a dedicated platform for the HPPC business and this may turn around the margins for good.

Exhibit 57: Revenue growth to sustain from opportunities in the HPPC segment



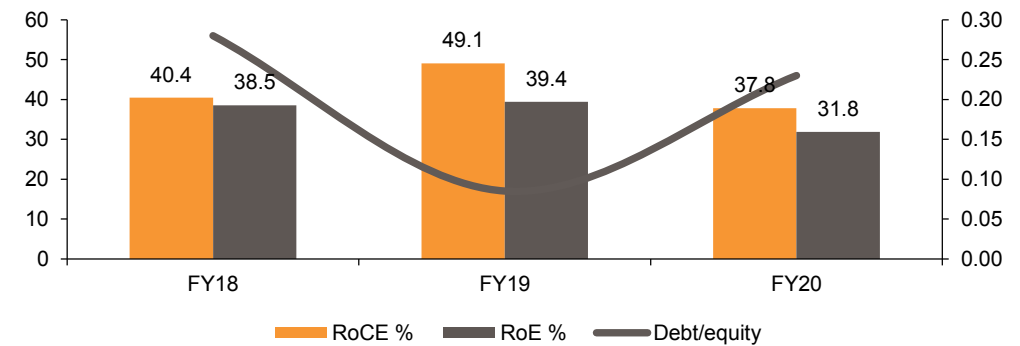
Source: Company, Emkay Research

Exhibit 58: Improved positioning in the market translated into better pricing power, which expanded gross margins



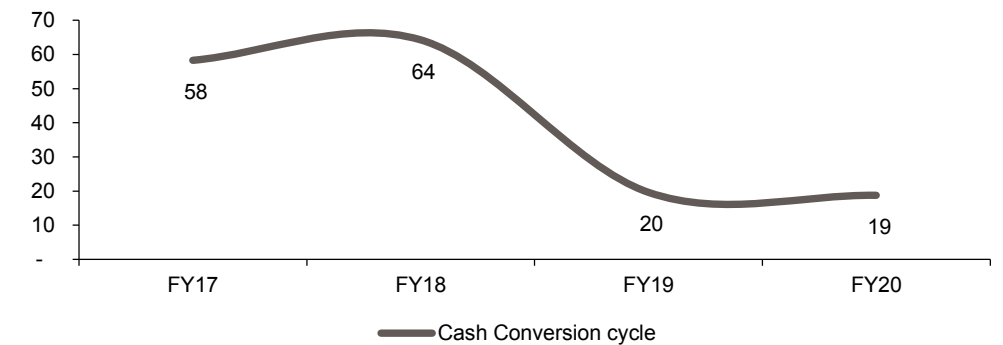
Source: Company, Emkay Research

Exhibit 59: Return ratios are higher than industry level



Source: Company, Emkay Research

Exhibit 60: Cash conversion has been significantly lower than industry average in last 2 years



Source: Company, Emkay Research

Outlook and valuation

The company has delivered robust growth in revenue/EBITDA/PAT over FY15-FY20, reporting CAGRs of 31%/51%/78%, leading to high return ratios (RoE/RoCE at 25%/32% in FY20). The new capacity expansion at Dahej (132ktpa) will strengthen its portfolio in high-growth HPPC segment to serve its wide customer base. Customized product offering, fungible capacities and rapid finished product conversion rate remain the key differentiators for the company. At the upper price band of Rs425, the stock is available at 33x FY20 earnings.

Exhibit 61: Valued at upper band compared to some larger players in Specialty Chemicals

Peers	Sales (Rsmn)	EBITDA margin (%)	PAT Margin (%)	PE (x)	ROE %
	FY20	FY20	FY20	FY20	FY20
Rossari Biotech	6,001	17.5	10.9	31.5	25.0
Advanced Enzyme	4,440	45.6	30.0	15.4	9.4
Fine Organics	10,381	23.2	15.9	35.0	29.5
Galaxy Surfactant	25,964	14.2	8.9	22.8	23.0
Vinati Organics	10,289	40.2	32.4	37.2	24.8
Aarti Industries	41,863	23.2	13.1	31.0	19.1
Atul Ltd.	40,931	22.0	16.3	22.1	22.7

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20
Revenue	2,334	2,918	5,162	6,001
Expenditure	2,089	2,469	4,386	4,954
EBITDA	245	449	776	1,047
Depreciation	43	51	123	169
EBIT	202	398	654	879
Other Income	6	9	9	37
Interest expenses	21	14	29	36
PBT	187	394	634	881
Tax	31	105	177	226
Reported Net Income	156	289	457	655
Adjusted PAT	156	289	457	655

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20
Equity share capital	44	44	44	102
Reserves & surplus	562	851	1,201	2,765
Net worth	606	895	1,245	2,867
Minority Interest	0	0	0	0
Loan Funds	269	248	107	626
Net deferred tax liability				
Total Liabilities	874	1,143	1,352	3,493
Net block	448	537	844	1,153
Investment	11	51	39	436
Current Assets	753	1,003	1,601	3,126
Cash & bank balance	18	7	57	1,272
Other Current Assets	996	1544	1954	
Current liabilities & Provision	337	449	1,133	1,221
Net current assets	337	449	1,133	1,221
Misc. exp				
Total Assets	875	1,143	1,352	3,493

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20
PBT (Ex-Other income) (NI+Dep)	181	385	625	843
Other Non-Cash items				
Chg in working cap	-189	-150	136	-221
Operating Cashflow	18	190	621	1,559
Capital expenditure	-368	-141	-430	-477
Free Cash Flow	-350	50	191	1,082
Investments				
Other Investing Cash Flow				
Investing Cashflow	-58	-181	-415	-870
Equity Capital Raised	153	289	350	1,622
Loans Taken / (Repaid)	49	-21	-141	520
Dividend paid (incl tax)	11.00	440.00	110.00	0.00
Other Financing Cash Flow	27	-901	-361	577
Financing Cashflow	38	-461	-251	577
Net chg in cash	-3	-11	51	1,216
Opening cash position	20	18	7	57
Closing cash position	17	6	57	1,272

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19	FY20
EBITDA Margin	10.5	15.4	15.0	17.5
EBIT Margin	8.7	13.7	12.7	14.6
Effective Tax Rate	16.7	26.7	27.9	25.7
Net Margin	6.7	9.9	8.9	10.9
ROCE	27.0	40.4	49.1	37.8
ROE	29.5	38.5	39.4	31.8
RoIC	20.2	28.7	33.8	27.0

Emkay Alpha Portfolio – Speciality Chemicals



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Sector

Speciality Chemicals

Analyst bio

Rohit Sinha holds a CFA degree and comes with total four years of experience in the Specialty Chemicals sector. He currently covers nine stocks in the Specialty Chemicals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Speciality Chemicals	0.18	0.18	-4%	-1	100.00
Advanced Enzyme Tech	0.00	0.01	NA	1	2.77
Apcotex Industries	0.00	0.00	NA	0	2.04
BASF India	0.00	0.00	NA	0	2.02
Camlin Fine Sciences	0.00	0.01	NA	1	4.25
GHCL	0.00	0.01	NA	1	3.37
Navin Fluorine	0.00	0.04	NA	4	23.96
Orient Refractories	0.00	0.01	NA	1	3.63
SRF	0.18	0.09	-53%	-10	46.64
Tata Chemicals	0.00	0.01	NA	1	5.58
Vinati Organics	0.00	0.00	NA	0	1.98
Cash	0.00	0.01	NA	1	3.8

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

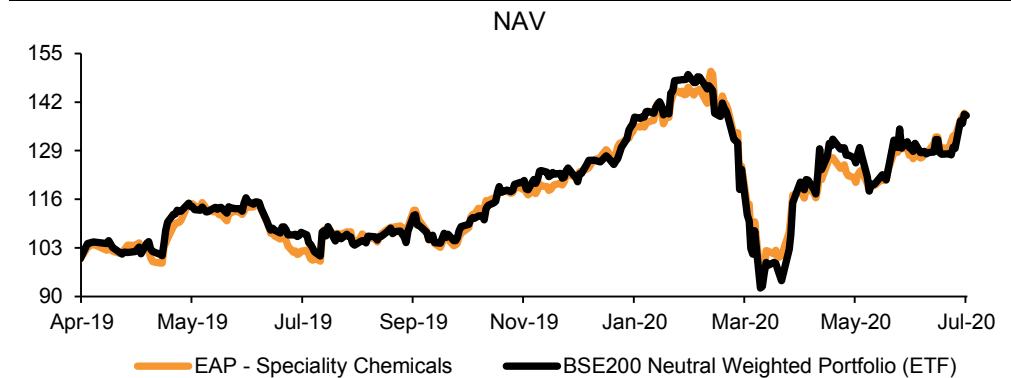
Sector portfolio NAV

	Base					Latest
	01-Apr-19	07-Oct-19	09-Jan-20	09-Apr-20	09-Jun-20	09-Jul-20
EAP - Speciality Chemicals	100.0	103.1	131.0	117.1	127.8	138.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.2	128.4	115.1	129.9	138.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 12 Jul 2020 17:52:16 (SGT)

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