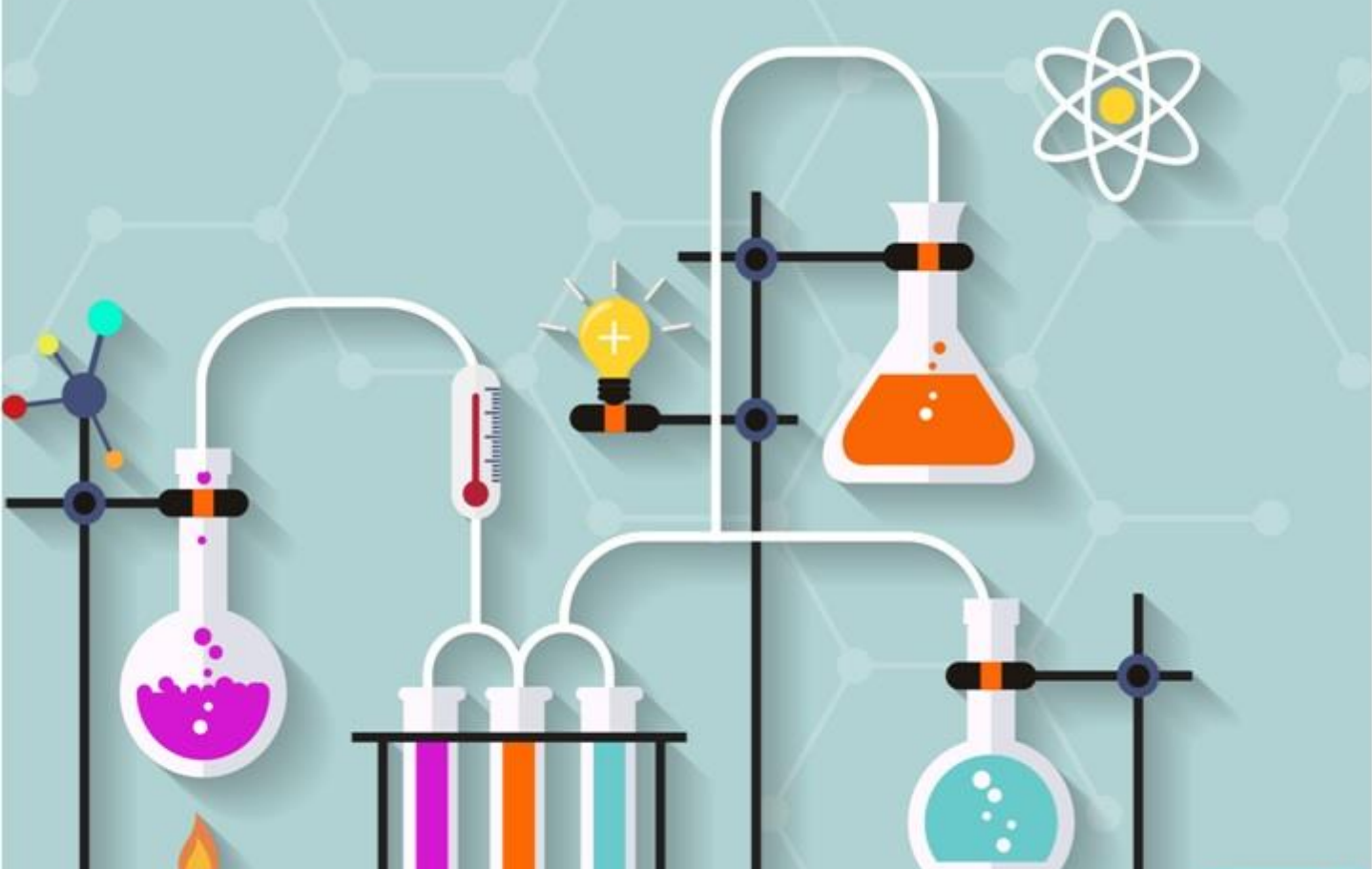


Rossari Biotech Ltd.



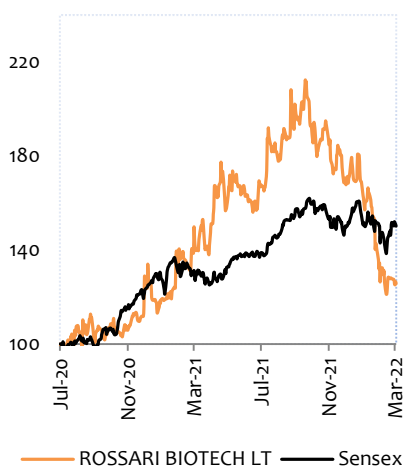
Rossari Biotech Ltd

CMP
INR 921Target
INR 1,456Market Cap (INR Mn)
50,586Recommendation
BUYSector
Specialty Chemicals

MARKET DATA

Shares outs (Mn)	55
Equity Cap (INR Mn)	110
Mkt Cap (INR Mn)	50,586
52 Wk H/L (INR)	1,621/889
Volume Avg (3m K)	35.4
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,593
NIFTY	17,222

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	68.6	68.6	68.7
Flls	9.1	8.4	7.8
Dlls	12.8	12.9	13.6
Others	9.5	10.1	9.9
Total	100.0	100.0	100.0

We recently visited Dahej plants of 'Rossari Biotech Ltd (RBL)' and its subsidiary 'Unitop Chemicals Ltd'. Both these plants are located within close proximity (in the range of ~4 kms). RBL has two plants located at Silvasa and Dahej with a total manufacturing capacity of 2,52,000 MTPA. The Dahej Plant was fully commissioned in March 2021 as per the planned schedule despite COVID pandemic. Incorporated in 1980, Unitop Chemicals has three manufacturing plants located at Dahej, Patalganga (Maharashtra) and Udampur (Jammu) with a total capacity of 80,000 MTPA.

We met Mr. Sunil Chari – Managing Director and Co-Founder, Mr. Ketan Sablok – Group Chief Financial Officer, Mr. Mikhail Menezes – Director: Technical, Mr. Rajaram Shetty – General Manager of Unitop Chemicals Ltd.

Following are the key takeaways of Plant visit and management meet:

Capex:

RBL may incur an incremental capex of INR 30-40 Cr for FY23; however, it has no major capex plans for the next 2-3 years. Unitop has acquired 19 acres of land in 2015 at Dahej which has a capacity of 60,000 MTPA. The company is planning to expand its capacity up to 1,10,000 MTPA by FY23.

Additionally, availability of excess land has helped them delay the land acquisition, as it foresees no shortage of land in the long run for any further required expansion.

Raw material sourcing:

- Post acquisition, Rossari has started sourcing its raw materials on a consolidated level from different suppliers which is allocated to all its subsidiaries based on its individual requirements.
- The price fluctuations in acetic acid and other raw materials like Phenol and Styrene remains a concern for the next few quarters.
- 90% of Phenol requirement is imported, as it offers custom duty benefits. Thus, only 10% is sourced from domestic suppliers.
- RBL is facing shortage of Ethylene Oxide (EO) where it has requirement of ~600 MT. There is a huge demand for EO in the domestic market; however, Reliance Industries Ltd is the only merchant supplier in India. It has resulted in the constraints for RBL's business growth due to shortage of EO in the short run. Reliance is currently undergoing an expansion of EO capacity by 15,000 MTPA which is expected to be commissioned by May 2022.

Products and Volume growth:

- Unitop Chemicals overall capacity utilization stands at ~60%. The business is largely based on the surfactants chemistry used in the segments such as agrochemicals and oil & gas. It has 20 core products in agrochemicals and ~500 overall products supplied in the market. Agrochemicals is one of the next business growth driver for RBL's overall growth. It has plans to forward integrate its agrochemical business with the launch of active ingredients.
- RBL caters to various segments besides Textiles, home / personal care & AHN such as coatings, inks & paints, paper & pulp, ceramics and tiles, cement, etc. Additionally, it is also expected to enter pharma coatings segment for both domestic and international markets.
- The management expects overall volume growth of 15% / 10% / 10% on yoy basis in Rossari, Unitop and Tristar in FY22, respectively.
- Recently, it has supplied its personal care products to Purple, Tata Trent and Sugar, while it is also trying to push it towards Nykka and HUL.
- RBL is now focusing on Esters which are green surfactants. These are plant based and bio-degradable than surfactants.

Rossari Biotech Ltd

Other key points:

- RBL has become a market leader in the various products they produce. It is ranked amongst top 3 players in the home care industry and Unitop Chemicals is ranked one of the top player in agrochem surfactants.
- RBL is also a leader in silicone polymer products. It produces import substitute products at Tristar Intermediates such as 'Phenoxyethanol and Phenoxypropanol'. The purity of these products has proven to be the best in the market as compared with its peers.
- Tristar Intermediates is gaining higher value in aroma chemicals. It is also present in the specialty chemicals, dye intermediates and high tech distillation facilities. It has three manufacturing facilities with overall installed capacity of 17,400 MTPA located at Sarigam in Gujarat.
- The operating margin of Unitop Chemicals is at ~14% while overall margins of RBL are expected to be in the range 14%-15% in FY23.
- On a consolidated basis, RBL's working Capital days stood at 74 days led by 77 working capital days of Unitop Chemicals Ltd.
- RBL has strong R&D team with 50 professionals while Unitop and Tristar has a team of 6 and 4 professionals, respectively.
- RBL aims to grow inorganically every two years in order to achieve 100% growth in revenue during the same period.
- The management is more focused towards green chemistry which will have a positive impact in the long run. Dahej facilities have effluent treatment plants to ensure zero discharge facility.
- The new product development takes approx. 6 to 12 months period. From customer side, it takes ~8 weeks for R&D and ~1 month for product approval. Thus, RBL may launch a product in the market within 1-4 months period once the formulation is available.
- Rossari and its subsidiaries are operating as an individual unit which helps them to manage its operations efficiently.

Valuation and view:

We believe Rossari's HPPC and Unitop's Agrochemicals segments are future growth drivers for the company. Although, RM price inflation remains a near term concern and a key monitorable, we are long term positive on this good quality stock. **We have BUY rating on the stock with the target price of INR 1,456/share (an implied PE 35.0x to FY24 EPS).**

KEY FINANCIALS

INR millions	FY20	FY21	FY22E	FY23E	FY24E
Revenue	6,001	7,093	14,771	20,396	23,008
EBITDA	1,047	1,231	2,055	2,843	3,554
PAT	653	800	1,248	1,754	2,298
EPS (INR)	13.23	15.47	22.59	31.76	41.59
EBITDA Margin (%)	17.5%	17.3%	13.9%	13.9%	15.4%
NPM (%)	10.9%	11.3%	8.4%	8.6%	10.0%

Source: Company data, KRChoksey Research

Rossari Biotech Ltd

Rossari Biotech Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Feb-22	1,043	1,456	BUY	Buy	More than 15%
03-Nov-21	1,352	1,612	BUY	Accumulate	5% – 15%
01-Oct-21	1,442	1,612	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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