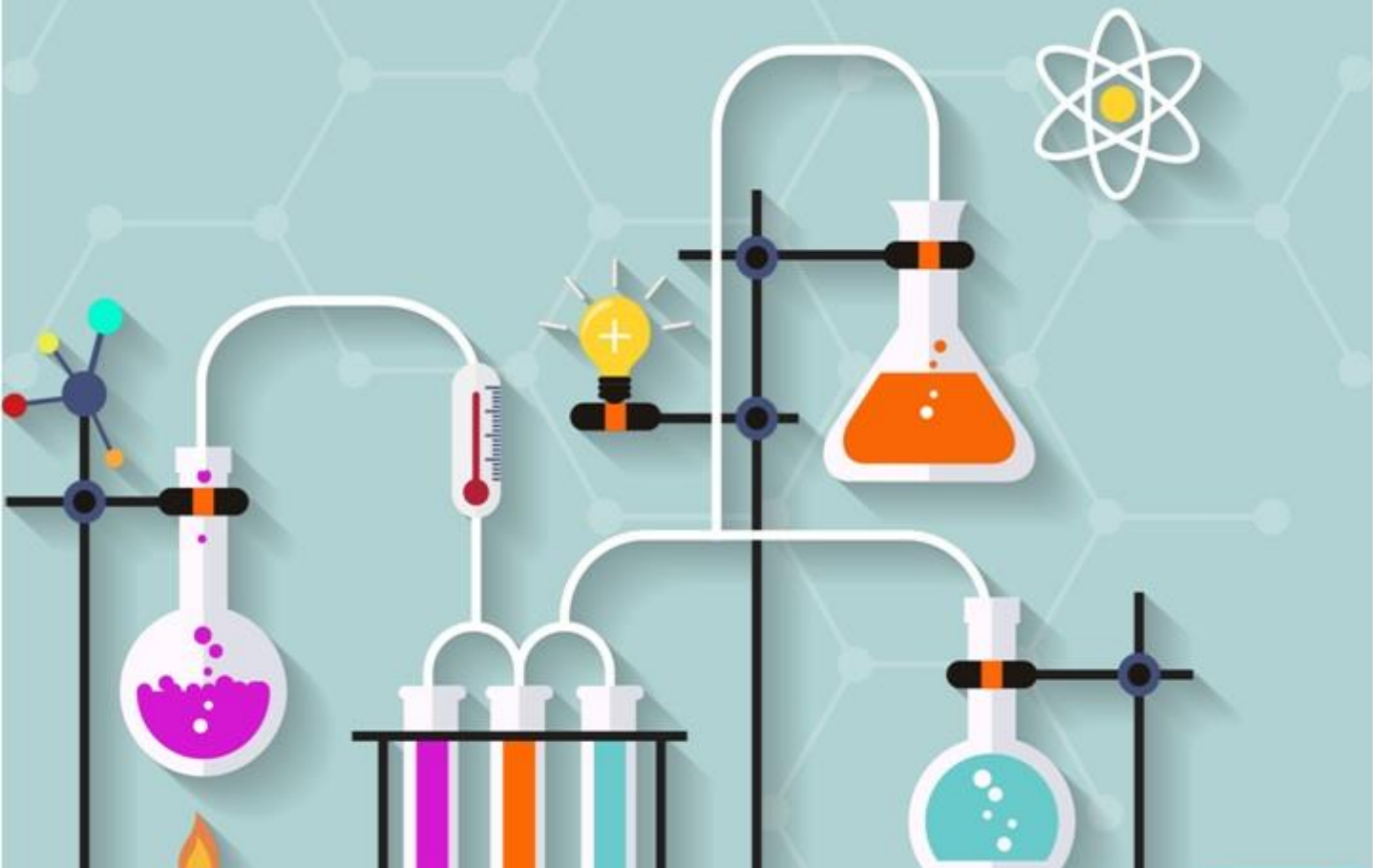


# Rossari Biotech Ltd.



# Rossari Biotech Ltd.

**Building product pipeline to drive the business growth**

CMP INR 935	Target INR 1,252	Potential Upside 33.9%	Market Cap (INR Mn) INR 50,489	Recommendation BUY	Sector Specialty Chemicals
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## Result Highlights of Q1FY23

- Rossari Biotech consolidate revenue grew by 88% yoy at INR 4,347Mn (5% below KRC estimates) which includes mergers' impact and can't be compared directly with Q1FY22; however, it has observed decline by 1% qoq in revenue. Standalone revenue reported at INR 2,337Mn (+14.6% yoy / -10.7% qoq).
- EBITDA reported at INR 577Mn (+52% yoy / +10% qoq; 5% above KRC estimates); as EBITDA margin reported at 13.3% (-310bps yoy / +136.3bps qoq) on account of price increases and softening of raw material prices (above KRC estimates of 12.0%).
- PAT reported at INR 286.81 (17% yoy / 19% qoq) as against INR 240.8Mn in Q4FY22. PAT margin stood at 6.6% (-402bps yoy / 111bps qoq). Diluted EPS reported at INR 5.18 as against INR 4.35 in Q4FY22 and INR 4.49 in Q1FY22.

## MARKET DATA

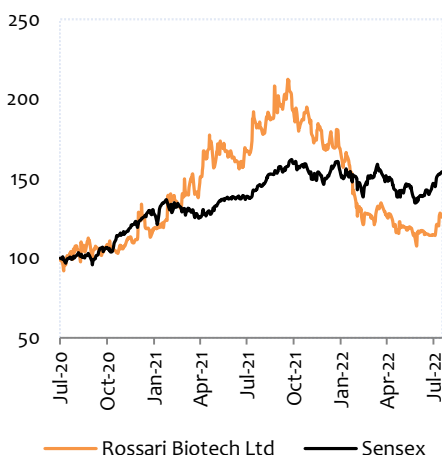
Shares outs (Mn)	55
Equity Cap (INR Mn)	110
Mkt Cap (INR Mn)	50,489
52 Wk H/L (INR)	1621/795
Volume Avg (3m K)	50.9
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

## Key Financials

INR millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	6,001	7,093	14,830	20,396	23,008
EBITDA	1,047	1,231	1,834	2,812	3,515
PAT	653	800	977	1,766	2,301
EPS (INR)	13.23	15.47	17.70	31.97	41.66
EBITDA Margin (%)	17.5%	17.3%	12.4%	13.8%	15.3%
NPM (%)	10.9%	11.3%	6.6%	8.7%	10.0%

Source: Company data, KRChoksey Research

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	58,853
NIFTY	17,525

## SHARE HOLDING PATTERN (%)

Particulars	Jun 22	Mar 22	Dec 21
Promoters	68.6	68.6	68.6
FIIIs	8.5	9.0	9.1
DIIIs	13.0	12.3	12.8
Others	9.9	10.1	9.5
Total	100.0	100.0	100.0

## Organic business held owing to RM price inflation; overall steady performance sustained

- Rossari's organic business was largely impacted due to high volatility in raw material prices. There was a strategic decision of not procuring raw material given the price volatility. However, consolidated revenue performance was remained steady for the quarter, backed by improved performance of acquired businesses, such as Unitop, Tristar and Romakk chemicals.
- During the quarter, HPPC segment revenue grew 139% yoy at INR 3,165Mn (4% qoq); TSC segment revenue stood at INR 938Mn (26% yoy / -14% qoq) and AHN segment revenue delivered muted growth of 1% at INR 243Mn. HPPC / TSC / AHN segments contributed 73% / 22% / 6% of overall revenue in Q1FY23, respectively.
- We estimate revenue to grow at 25% CAGR over FY22-24E owing to strong product pipeline which focuses on sustainability and environment friendliness. These niche products are well appreciated by customers which shows significant increase in Rossari's customer base.

## Enhanced margins led by price increase and reduction in raw material prices

- Rossari Biotech has been able to enhance its margins up to 13.3% for Q1FY23 as indicated earlier, by overcoming raw material price volatility to an extent and possible price hikes as required. The management expects to achieve medium-term EBITDA margins in the range of 14% - 15%, while it aims at achieving 15% - 17% margins over the next two years.
- However, the management is more focused towards higher asset turnover ratio and absolute growth in EBITDA. Rossari Biotech expects improvement in operating environment on the back of normalised raw material prices and stability in supply chain.

## Valuation

Currently, the stock is trading at PE multiples of 29.2x / 22.4x based on our FY23E / FY24E EPS estimates, respectively. We are positive on R&D strength of Rossari Biotech Ltd which has a major focus on developing new products for its long term business growth. We will continue to observe the margin performance as a key monitorable in the upcoming quarters. We estimate PAT to grow at 54% CAGR over FY22-24E with EBITDA margin range of 13.5% - 15.5%. We retain our target price at INR 1,252/share (P/E multiple 30x to FY24 EPS) and retain our BUY recommendation on the stock (upside: 33.9%).

# Rossari Biotech Ltd.

## Key Concall Highlights

- Rossari serves more than 200 customers in HPPC segment and it has expanded its number of brands from four in 2020 to thirty at current levels. It has added 5 – 6 customers in July 2022.
- It has changed its inventory method from FIFO (First-in First Out) to WAC (Weighted average method) which will not have any material impact on financial numbers.
- Revenue on standalone basis observed de-growth on account of high volatility in raw material prices which led to challenges related to whole supply chain. The management expects conservative revenue growth for Q2FY23.
- Unitop agrochemicals sales were robust in Q1FY23 with ~60% of Unitop total revenue of INR 1,500Mn. The management expects INR 4,500 to 5,000Mn of revenue in FY23.
- There are new seeding products where Rossari is working very closely with acquired companies-
  - It has developed in house silicone oil for the application in both textiles and agrochemicals (Ethoxylate reacted with silicones to produce a super spreader.
  - It has jointly developed phenoxy propanol between Tristar and Unitop, where it has invested INR 10Mn for REACH registration.
  - It is trying to expand its reach in Europe for new agro and preservatives products.
  - It has introduced new esters like SMOs and SML for internal consumption which is getting produced at Rossari and consumed at Unitop Chemicals.
  - Both Unitop and Tristar developed spin finish (primary & secondary) for textiles segment.
  - In coating applications, it has been able to develop acrylic coating chemicals and another coating product for technical textiles.
  - It has developed a range of polyester based sizing agents which applied in both cotton and polyester. It has major a focus on export market for this product.
  - In AHN business, esters and glycerides are at the final stage of testing and will be launched soon in the market. It has also finalised pet food introduction in the upcoming quarter.
  - The sustainable black dyeing process is gaining traction in the marketplace. It has targeted certain green products, such as green soda, green acid and green hydro.
- There was a subdued growth in textile segment in North America and European market due to the Ukraine war. Rossari is targeting to acquire new customers in the textiles various products of sizing, spin finish and technical textiles. The management expects INR 1,000Mn of revenue every quarter in FY23 while it expects better profitability with overall margin expansion.

# Rossari Biotech Ltd.

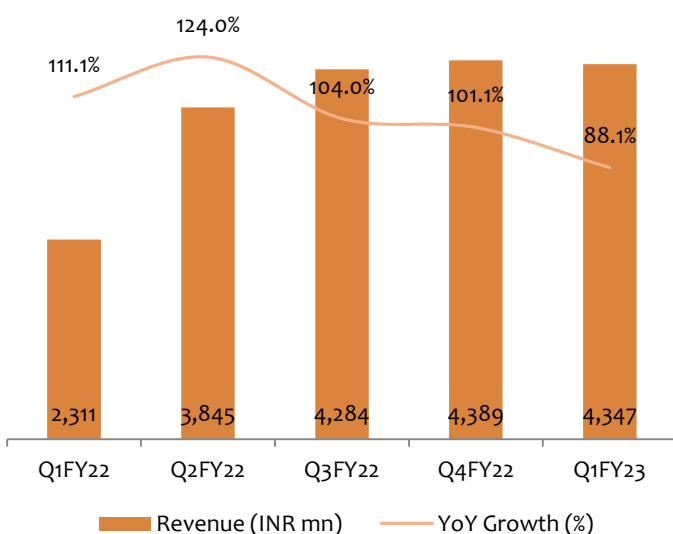
## Q1FY23 Result Analysis

Particulars (INR mn)	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
<b>Revenue from operations</b>	<b>4,347</b>	<b>2,311</b>	<b>88.1%</b>	<b>4,389</b>	<b>-1.0%</b>
COGS	3,106	1,598	94.4%	3,244	-4.3%
<b>Gross Profit</b>	<b>1,241</b>	<b>713</b>	<b>73.9%</b>	<b>1,145</b>	<b>8.4%</b>
<b>Gross Margin (%)</b>	<b>28.5%</b>	<b>30.9%</b>	<b>-232bps</b>	<b>26.1%</b>	<b>246bps</b>
Employee benefits expense	235	116	103.1%	222	5.9%
Other expenses	428	226	89.2%	400	7.1%
<b>EBITDA</b>	<b>577</b>	<b>371</b>	<b>55.5%</b>	<b>523</b>	<b>10.4%</b>
<b>EBITDA Margin (%)</b>	<b>13.3%</b>	<b>16.1%</b>	<b>-278bps</b>	<b>11.9%</b>	<b>136bps</b>
Depreciation and amortisation expense	153	63	142.5%	165	-7.3%
<b>EBIT</b>	<b>424</b>	<b>308</b>	<b>37.7%</b>	<b>358</b>	<b>18.6%</b>
Finance costs	51	6	700.6%	48	5.7%
Other income	7	31	-75.8%	20	-62.3%
Share of profit from JV/associates	6	0	-	13	-53.4%
<b>Profit before tax</b>	<b>381</b>	<b>332</b>	<b>14.6%</b>	<b>329</b>	<b>15.6%</b>
Total tax expense	100	87	15.2%	102	-1.7%
<b>Profit for the period</b>	<b>287</b>	<b>245</b>	<b>16.9%</b>	<b>241</b>	<b>19.1%</b>
<b>PAT Margin (%)</b>	<b>6.6%</b>	<b>10.6%</b>	<b>-401bps</b>	<b>5.5%</b>	<b>112bps</b>
<b>EPS</b>	<b>5.18</b>	<b>4.49</b>	<b>15.4%</b>	<b>4.35</b>	<b>19.0%</b>

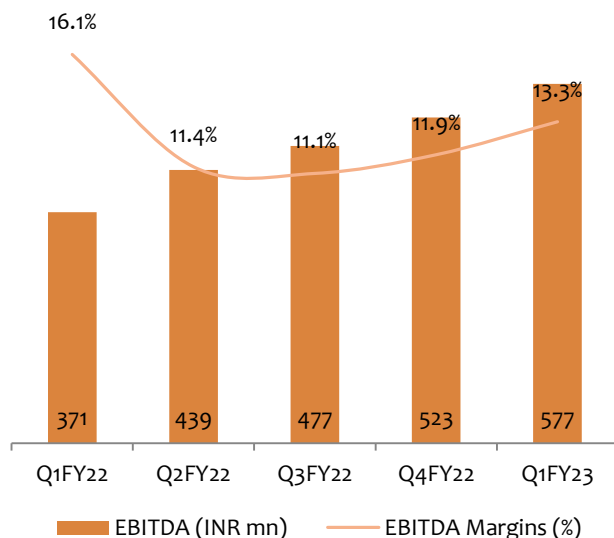
Source: Company data, KRChoksey Research

Note: Q1FY23 and Q4FY22 figures are based on consolidated financials including the effect of Untiop Chemicals, Tristar Intermediates and Romakk Chemicals which are not comparable to previous periods

### It has delivered steady revenue growth sequentially



### EBITDA margins improved owing to ease in supply chain related issues and declining raw material prices



Source: Company data, KRChoksey Research

Note: Q3FY22, Q4FY22 and Q1FY23 figures are based on consolidated financials including the effect of Untiop Chemicals, Tristar Intermediates and Romakk Chemicals which are not comparable to previous quarters

# Rossari Biotech Ltd.

## QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INR mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
HPPC*	1,323	2,361	2,940	3,036	3,165
TSC	747	1,097	1,106	1,098	939
AHN	241	387	238	255	243
Total	2,311	3,845	4,284	4,389	4,347
<b>Segment-wise Growth YoY (%)</b>					
HPPC*	59%	169%	146%	180%	139%
TSC	324%	61%	41%	25%	26%
AHN	174%	148%	95%	17%	1%
<b>Segment-wise Contribution (%)</b>					
HPPC*	57%	61%	69%	69%	73%
TSC	32%	29%	25%	25%	22%
AHN	10%	10%	6%	6%	6%

Source: Company data, KRChoksey Research

Q3FY22, Q4FY22 and Q1FY23 figures for HPPC includes revenue from Unitop Chemicals and Tristar Intermediates

## SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INR mn)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
HPPC	553	1,952	2,809	3,994	9,661	14,630	17,093
TSC	2,143	2,694	2,623	2,516	4,047	4,347	4,999
AHN	294	516	569	583	1,121	1,209	1,632
<b>Segment-wise Growth (%)</b>							
HPPC	45%	253%	44%	42%	149%	172%	17%
TSC	6%	26%	-3%	-4%	50%	23%	15%
AHN	59%	76%	10%	3%	80%	29%	35%
<b>Segment-wise Contribution (%)</b>							
HPPC	19%	38%	47%	56%	67%	72%	72%
TSC	72%	52%	44%	36%	31%	22%	21%
AHN	10%	10%	9%	8%	9%	6%	7%

Source: Company data, KRChoksey Research

# Rossari Biotech Ltd.

## Consolidated Financial Statements

Income Statement (INR mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue from operations</b>	<b>6,001</b>	<b>7,093</b>	<b>14,830</b>	<b>20,186</b>	<b>23,724</b>
Total Raw material costs	3,717	4,622	11,050	14,534	16,607
<b>Gross Profit</b>	<b>2,284</b>	<b>2,472</b>	<b>3,779</b>	<b>5,652</b>	<b>7,117</b>
Total expenses	1,236	1,241	1,945	2,878	3,459
<b>EBITDA</b>	<b>1,047</b>	<b>1,231</b>	<b>1,834</b>	<b>2,774</b>	<b>3,658</b>
Dep & Amort Exps	169	228	481	500	514
<b>EBIT</b>	<b>879</b>	<b>1,002</b>	<b>1,354</b>	<b>2,274</b>	<b>3,144</b>
Finance costs	36	30	127	197	175
Other income	37	92	120	61	71
<b>Profit before tax</b>	<b>881</b>	<b>1,064</b>	<b>1,347</b>	<b>2,138</b>	<b>3,040</b>
Total tax expense	226	268	386	534	760
<b>Net Profit</b>	<b>653</b>	<b>800</b>	<b>977</b>	<b>1,623</b>	<b>2,306</b>
<b>Diluted EPS</b>	<b>13.23</b>	<b>15.47</b>	<b>17.70</b>	<b>29.38</b>	<b>41.74</b>

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Fixed Assets	1,105	1,682	3,480	3,577	3,675
Intangible Assets	48	134	2,605	2,605	2,605
Investments	179	0	118	235	470
Loans and other assets	74	257	122	120	119
Trade receivables	941	1,441	3,049	3,263	3,835
Inventories	582	954	1,899	1,991	2,275
Cash and cash equivalent	1,272	883	524	1,727	2,756
Other Assets	514	263	772	582	638
<b>Total Assets</b>	<b>4,715</b>	<b>5,613</b>	<b>12,567</b>	<b>14,100</b>	<b>16,373</b>
Equity Capital	102	104	110	110	110
Reserves	2,765	3,984	7,942	9,500	11,733
<b>Shareholders Equity</b>	<b>2,867</b>	<b>4,088</b>	<b>8,052</b>	<b>9,610</b>	<b>11,843</b>
Trade Payables	970	1,311	1,862	2,190	2,502
Current liabilities	510	182	1,069	1,069	1,069
Non Current liabilities	345	13	1,539	1,189	919
Provisions	23	19	45	42	39
<b>Total Liabilities</b>	<b>4,715</b>	<b>5,613</b>	<b>12,567</b>	<b>14,100</b>	<b>16,373</b>

Source: Company data, KRChoksey Research

Cash Flow Statement (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow	548	478	278	2,172	1,918
Investing Cash Flow	-1,903	-372	-2,989	-323	-355
Financing Cash Flow	1,569	-246	2,918	-660	-570
Net Inc/Dec in cash equivalents	215	-140	207	1,189	993
Opening Balance	57	292	152	359	1,548
Closing Balance Cash & Cash Eq.	292	152	359	1,548	2,541

Source: Company data, KRChoksey Research

Key Ratios	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	17.5%	17.3%	12.4%	13.7%	15.4%
Net Profit Margin (%)	10.9%	11.3%	6.6%	8.0%	9.7%
RoE (%)	31.8%	23.0%	16.1%	18.4%	21.5%
ROA (%)	18.1%	15.5%	10.7%	12.2%	15.1%
RoCE (%)	27.2%	24.4%	14.1%	21.0%	24.6%
Debt/Equity	0.2X	0.0X	0.0X	0.0X	0.0X

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
10-Aug-22	935	1,252	BUY	Buy	More than 15%
24-May-22	887	1,252	BUY	Accumulate	5% – 15%
16-Feb-22	1,043	1,456	BUY	Hold	0 – 5%
03-Nov-21	1,352	1,612	BUY	Reduce	-5% – 0
01-Oct-21	1,442	1,612	ACCUMULATE	Sell	Less than – 5%

#### ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.  
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.  
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.