

February 07, 2023

RESULT REPORT Q3 FY23 | Sector: Chemicals

Rossari Biotech Ltd

Focus on expansion of high margin portfolio

Our View

Rossari's reported operating profits at Rs 542mn (+16%YoY; -4% QoQ) missed our and street estimates on weaker earnings traction in subsidiaries and weaker demand sentiment in the HPPC segment. The Ebitda margin at 13.9% (2Q: 13.3%) nevertheless improved QoQ as raw material price environment improved. The standalone earnings were steady with SA. Ebitda at 319mn growing by 22% YoY & 15% QoQ, primarily on expansion in SA operating margin to 13.5% (2Q: 11.6%), even as revenue at 2.4bn (-12% YoY; -2% QoQ) stood weaker. Demand environment remains challenging in TSC segment, plus HPPC faced headwinds during the quarter due to a particular customer, which the company is trying tide over by onboarding of new customers. In the longer run, under normalized operating conditions, we expect the operating margins to restore to 14-15% levels. In addition, Rossari continues to innovate, within the its four core chemistries, developing products for new applications, across product segments. Maintain BUY.

Result Highlights

- **Revenue:** The consolidated net-revenue stood at Rs 3.9bn (-9% YoY; -9% QoQ); on weaker HPPC segment demand and weaker sales in subsidiaries. While weaker Agro demand impacted Unitop, Tristar was impacted by weaker exports to Europe and Russia.
- **Consol. Ebitda & PAT:** Consolidated Ebitda at Rs 542mn stood higher by 16% YoY but 4% lower QoQ. Consol. PAT stood at Rs 257mn (+14% YoY; +7% QoQ). Ebitda margin improved QoQ to 13.9% (2QFY23: 13.3%) on moderation in raw material prices. 43% QoQ lower interest cost further aided earnings in the 3QFY23. The 9M Ebitda & PAT stood at Rs 1.7bn (+32% YoY) & Rs 775mn (+6.1% YoY)
- **Standalone Earnings:** S.A. Revenue for 3QFY23 stood at Rs 2.369bn (-12% YoY; -2% QoQ), with Ebitda at Rs 319mn (+22% YoY; +15% QoQ) and PAT at Rs 175mn (-4% YoY; +13% QoQ). As the standalone business had a relatively stable quarter vis-à-vis subsidiaries. The 9M Ebitda & PAT stood at Rs 868mn (-7.6% YoY) & Rs 482mn (-22% YoY).
- **HPPC Segment:** Revenue stood at Rs 2.71bn (-7.8% YoY; -10.7% QoQ) as the segment experienced weaker demand sentiment during the quarter.
- **TSC Segment:** Revenue stood at Rs 895mn (-19.1% YoY; -2.1% QoQ), challenges in textile exports impacted sales for textile chemicals during the quarter.
- **AHN Segment:** Revenue for the segment stood at Rs 286mn (+20.3% YoY; -5.2% QoQ), during the quarter.

Valuation

Maintain BUY on Rossari, with a Mar'24 TP of Rs 1095/sh. Our TP is premised upon an operating earnings CAGR of ~16%(FY22-30e), with a RoE profile of ~16%.

Exhibit 1: Actual vs estimate

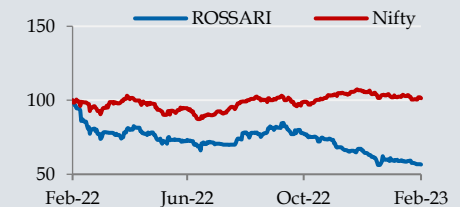
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	3,893	4,430	4,457	-12.1	-12.7	
EBITDA	542	637	641	-15.0	-15.5	
EBITDA Margin (%)	13.9	14.4	14.4	-46 bps	-47 bps	Earnings below estimates due to weaker than estimated revenues
Adjusted PAT	257	294	306	-12.9	-16.1	

Reco	: BUY
CMP	: Rs 687
Target Price	: Rs 1,095
Potential Return	: +59%

Stock data (as on Feb 06, 2023)

Nifty	17,765
52 Week h/l (Rs)	1250/648
Market cap (Rs/USD mn)	38077/461
Outstanding Shares (mn)	55
6m Avg t/o (Rs mn):	48
Div yield (%)	0.1
Bloomberg code:	ROSSARI
NSE code:	ROSSARI

Stock performance



	1M	3M	1Y
Absolute return	-4.9	-22.8%	-43.4%

Shareholding pattern (As of Dec '22 end)

Promoter	68.4%
FII+DII	21.7%
Others	8.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1095	1255

Financial Summary

(Rs mn)	FY22	FY23E	FY24E	FY25E
Revenue	14,830	16,192	19,052	22,358
YoY (%)	109.1	9.2	17.7	17.4
EBIDTA	1,834	2,239	2,667	3,242
OPM (%)	12.4	13.8	14.0	14.5
PAT	977	1,126	1,622	2,115
YoY (%)	22.0	15.3	44.0	30.4
ROE	16.1	13.1	16.4	18.2
EPS	19	22	31	41
P/E	45.7	31.5	21.8	16.8
P/BV	5.5	3.9	3.3	2.8
EV/EBITDA	24.1	15.1	12.3	9.7

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Exhibit 2: Quarterly snapshot

Particulars (Rs mn)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9MFY22	9MFY23	y/y (%)
Revenue	4,284	4,389	4,347	4,254	3,893	(9.1)	(8.5)	10,440	12,494	19.7
Expenditure	3,817	3,866	3,770	3,689	3,351	(12.2)	(9.2)	9,163	10,810	18.0
-Raw Material	3,216	3,244	3,106	3,018	2,724	(15.3)	(9.7)	7,806	8,848	13.3
-Staff Cost	202	222	235	241	242	19.8	0.2	457	718	57.1
-Other Expenses	399	400	429	430	385	(3.5)	(10.4)	899	1,244	38.3
EBITDA	467	523	577	565	542	15.9	(4.2)	1,278	1,684	31.8
EBITDA margin(%)	10.9	11.9	13.3	13.3	13.9	300 bps	62 bps	12.2	13.5	124 bps
Other Income	64	20	7	8	11	(82.5)	35.9	134	27	(80.0)
Interest	35	48	51	82	47	33.8	(43.2)	61	180	196.8
Depreciation	178	165	153	156	160	(10.4)	2.1	343	469	36.7
PBT	318	329	381	335	347	9.0	3.4	1,008	1,062	5.4
Tax	94	102	100	97	90	(4.4)	(7.4)	277	287	3.7
PAT	224	228	281	238	257	14.7	7.8	731	775	6.1
MI	(2)	(13)	(6)	(1)	(0)	(87.9)	(83.5)	(2)	(8)	241.8
Reported PAT	225	241	287	239	257	13.9	7.4	733	783	6.8

Source: Company, YES Sec

Exhibit 3: Segmental highlights

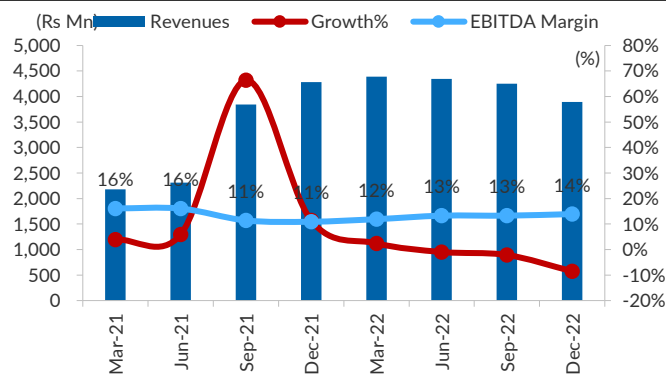
Particulars	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9MFY22	9MFY23	y/y (%)
HPPC										
Revenues	2,940	3,036	3,170	3,038	2,712	-7.8%	-10.7%	6,624	8,919	34.6%
% of total revenue	68.6	69.2	72.9	71.4	69.7	103 bps	-175 bps	53.0	71.4	-1837 bps
TSC										
Revenues	1,106	1,098	939	914	895	-19.1%	-2.1%	2,950	2,748	-6.9%
% of total revenue	25.8	25.0	21.6	21.5	23.0	-284 bps	150 bps	23.6	22.0	162 bps
AHN										
Revenues	238	255	243	302	286	20.3%	-5.2%	866	831	-4.0%
% of total revenue	5.6	5.8	5.6	7.1	7.4	180 bps	26 bps	6.9	6.7	28 bps
Consolidated										
Revenue	4,284	4,389	4,347	4,254	3,893	-9.1%	-8.5%	10,440	12,494	19.7%
Ebitda	467	523	577	565	542	15.9%	-4.2%	1,278	1,684	31.8%
Ebitda margin %	11	12	13	13	14	300 bps	62 bps	12	13	-124 bps
Standalone										
Revenue	2,686	2,616	2,337	2,409	2,369	-11.8%	-1.7%	8,112	7,115	-12.3%
Ebitda	261	275	270	279	319	22.3%	14.5%	939	868	-7.6%
Ebitda margin %	10	10	12	12	13	376 bps	190 bps	12	12	-62 bps
Subsidiaries										
Revenue	1,598	1,773	2,010	1,845	1,524	-4.6%	-17.4%	2,328	5,379	131%
Ebitda	206	248	307	287	222	7.7%	-22.4%	338	816	141%
Ebitda margin %	13	14	15	16	15	168 bps	-94 bps	15	15	-65 bps

CONCALL HIGHLIGHTS

- During the quarter margins improved on QoQ and YoY basis as a result of moderation in RM prices by 15%. Saw pickup in exports during the quarter. Despite the headwinds in short-term, long-term outlook intact.
- Degrowth in standalone business was 11%, majority attributable to lower demand in agro and lower offtake from exports.
- Have invested in R&D to create range of ecofriendly products. Focus on increasing high margin product portfolio
- Water treatment, Ceramic and cement new areas being explored
- Gross margins at 30%, EBITDA increased to 14%. Standalone gross margins were - 29%.
- For FY23, Rs 17bn topline expected for the year, EBITDA of Rs 2.2-2.3 bn margin of 13%.
- For FY24 - 15-20% growth on topline and to reach 16-17% margin over 2 years' time frame
- Capacity utilization - 55%.
- Bookkeeping - For the 9M exports contributed 24% on consolidated basis.
- Capex of Rs. 50-100 mn done mainly towards maintenance, for next year not more than Rs. 300-400 mn to be spent on capex. No large capex plan as of now. Currently have enough room to double the turnover.
- New projects undertaken are targeted at 20% EBITDA, gross margins above 30%. Products like Green surfactants, silicone based wetting agents etc. have such profile.
- Standalone Subsidiary saw slowdown due to subdued demand. Textile sector slowdown continued. And Agricultural demand was muted. YoY numbers were down due to weakening of RM prices.
- HPPC - Rossari was able to maintain run rate, with onboarding of new customers, of which one is key MNC customer added. Also, faced headwind with a customer which had hurtled the standalone numbers. That Customer now no more contributes to run rate. In couple of quarters the loss shall be negated completely.
- Volume growth was seen in subsidiary, which was slightly impacted due to slowdown of agriculture which shall pickup in Feb-March
- Tristar saw export headwinds to Europe and Russia during November and December. This quarter should be back to its run rate. Slowdown due to destocking by customers
- In Unitop, non-agro business growth was good during the quarter.
- TSC - Prices of RM came down. Textile industry still facing slowdown, expecting in May-June demand to revive. Management plans to double this segment in 4 to 5 years.
- AHN - seeing 20% YOY growth, the momentum is expected to continue and Q4 to be stronger. 30-35% growth to be seen in upcoming years. Products in this category are High value high margins. Margins for some of the products are up to 50%, management is aggressive on this segment as they expect good growth potential. Management is confident of doubling the contribution from this segment in next 3 years.
- Focus on zero effluent, majority products do not produce effluents, due to number of products there is cleaning required so there is effluent discharge at Dahej facility.
- Formulation and customized solution are backbone with center of excellence at IIT Powai. Speed and flexibility of delivery of product is another differentiator.
- Focus on zero effluent, majority products do not produce effluents, due to number of products there is cleaning required so there is effluent discharge at Dahej facility

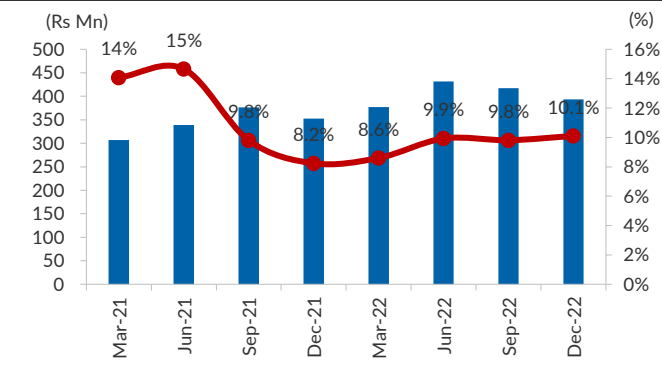
CHARTS

Exhibit 4: Revenue down 0.1% YoY and by 8.5% QoQ; on weaker demand sentiment in HPPC segment



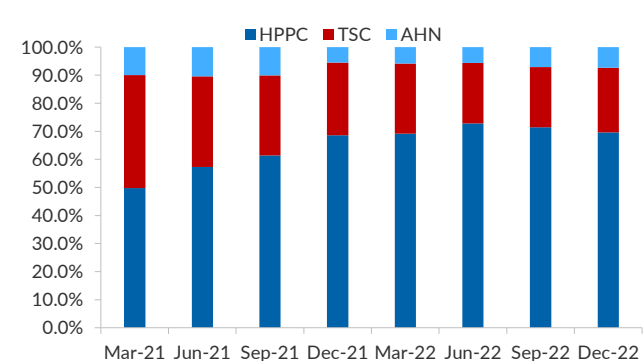
Source: Company, YES Sec

Exhibit 5: EBITDA margins expanded by ~300bps YoY and 62bps QoQ due to moderation in RM costs



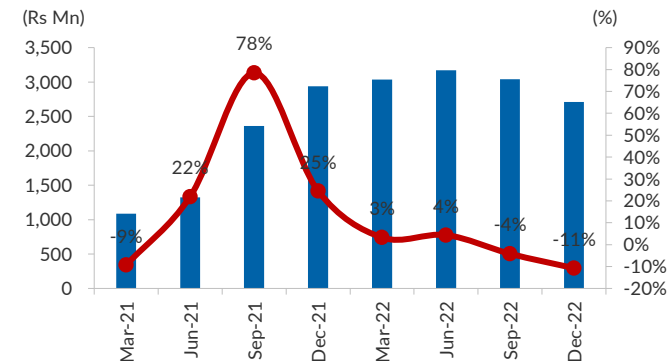
Source: Company, YES Sec

Exhibit 6: HPPC segment's share stood at 69.7%, followed by 23% share of TSC and 7.4% AHN



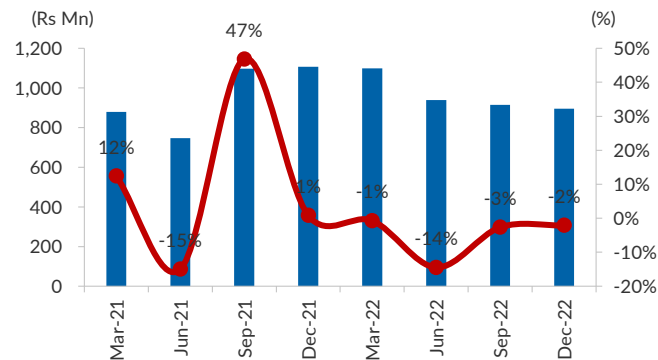
Source: Company, YES Sec

Exhibit 7: HPPC segment revenue decreased 7.8% YoY and 10.7% QoQ



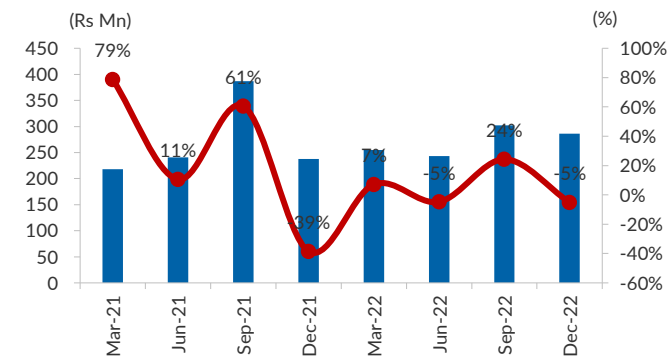
Source: Company, YES Sec

Exhibit 8: TSC segment revenue stood lower by 19% YoY & 2.1% QoQ



Source: Company, YES Sec

Exhibit 9: AHN segment revenue stood higher by 20.3% YoY but lower by 5.2% QoQ



Source: Company, YES Sec

VIEW & VALUATIONS

Maintain BUY with a TP of Rs 1,095/sh

We maintain our BUY rating on Rossari, with a revised Mar'24 TP of Rs 1095/sh (from Rs 1255/sh), as we make adjustment to our earnings estimate, to factor for current tepid operating environment. While there are challenges in the interim due to macro environment, but in the longer run Rossari's growth trajectory and margins are likely to get normalized. Our TP is premised upon an operating earnings CAGR of ~16%(FY22-30e), with a average RoE profile of ~16%.

Exhibit 10: Valuation table

	(Rs mn)	USD mn	Rs /sh
Discounted projected FCFF	19689	246	382
Terminal Value	34262	428	664
EV	53951	674	1046
Net Debt/ (cash)	(2621)	(33)	(51)
Equity	56572	707	1097
Rs/USD	80		
Shr Outstanding	51.6		
Terminal Growth rate	4%		
WACC	11%		

FINANCIALS

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2335	2918	5159	6001	7093	14830	16192	19052	22358
Total Expense	2092	2472	4372	4954	5863	12995	13953	16385	19116
Operating Profit	243	446	787	1047	1231	1834	2239	2667	3242
Other Income	9	9	12	37	92	120	170	220	270
Depreciation	(43)	(51)	(122)	(169)	(228)	(481)	(607)	(625)	(642)
EBIT	210	404	677	916	1094	1474	1801	2263	2870
Interest	(21)	(10)	(33)	(36)	(30)	(127)	(300)	(100)	(50)
Share of JV	0	0	23	(2)	4	15	0	0	0
PBT	189	394	667	878	1068	1363	1501	2163	2820
Tax	(31)	(105)	(167)	(226)	(268)	(386)	(375)	(541)	(705)
PAT	157	289	500	653	800	977	1126	1622	2115
Adj. PAT	157	289	500	653	800	977	1126	1622	2115
Eps	27.1	65.7	103.3	13.4	15.5	18.9	21.8	31.5	41.0

Source: Company, YES Sec

Exhibit 12: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	44	44	44	102	104	110	110	110	110
Reserves	562	851	1201	2765	3984	7942	9015	10530	12462
Net worth	606	895	1245	2867	4088	8052	9125	10640	12572
Total Debt	220	209	58	610	0	84	315	315	315
Deferred tax liab (net)	0	0	0	5	13	689	689	689	689
Capital Employed	826	1104	1303	3482	4101	8825	10130	11644	13576
Fixed assets	448	537	784	1035	206	3060	3104	3050	3012
Intangibles	1	0	60	48	1609	3025	2887	2717	2513
Investments	2	32	2	179	0	359	409	459	509
Net working capital	376	535	457	2221	2285	2381	3729	5418	7542
Inventories	235	351	549	582	954	1899	1586	1895	2215
Sundry debtors	473	598	860	941	1441	3049	2662	3132	3675
Cash & Bank Balance	21	7	57	1272	883	524	2036	2869	4434
Other assets	39	74	192	658	521	652	652	652	652
Other Liabilities	56	114	152	263	202	1880	1461	1045	997
Sundry creditors	336	381	1048	970	1311	1862	1744	2085	2436
Application of Funds	826	1104	1303	3482	4101	8825	10130	11644	13576

Source: Company, YES Sec

Exhibit 13: Cash Flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PBT	189	394	622	881	1064	1347	1501	2163	2820
Depreciation & amortization	43	51	122	169	228	481	607	625	642
Interest expense	21	10	23	36	30	127	300	100	50
(Inc)/Dec in working capital	(140)	(128)	180	(311)	(483)	(1130)	583	(439)	(511)
Tax paid	(34)	(105)	(208)	(201)	(313)	(501)	(375)	(541)	(705)
Less: Interest/Dividend Income Received	(1)	(4)	(9)	(17)	(43)	41	0	0	0
Other operating Cash Flow	0	0	(0)	12	(6)	(70)	(114)	0	0
Operating Cashflow	77	218	729	568	478	294	2503	1907	2295
Capital expenditure	(55)	(141)	(439)	(760)	(581)	(3785)	(400)	(400)	(400)
Inc/(Dec) in investments	0	(30)	30	(137)	137	16	(50)	(50)	(50)
Add: Interest/Dividend Income Received	0	4	4	14	35	50	0	0	0
Other items	0	5	(14)	(1021)	37	0	(568)	(565)	(197)
Investing Cashflow	(55)	(162)	(420)	(1904)	(372)	(3719)	(1018)	(1015)	(647)
Inc/(Dec) in share capital	0	0	0	1000	427	3015	0	0	0
Inc/(Dec) in debt	(0)	(50)	(154)	629	(610)	(48)	231	0	0
Dividend Paid	0	(3)	(105)	(26)	(25)	(28)	(52)	(108)	(183)
Others	(21)	(10)	(19)	(33)	(37)	(22)	(300)	(100)	(50)
Financing Cashflow	(21)	(63)	(278)	1569	(246)	2918	(122)	(208)	(233)
Net cash flow	1	(7)	32	234	(140)	(508)	1364	684	1416
Ending Balance	21	14	38	291	152	375	1887	2720	4285

Source: Company, YES Sec

Exhibit 14: Du Pont

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Interest burden (x)	0.9	1.0	1.0	1.0	1.0	0.9	0.8	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Asset turnover (x)	2.1	2.1	2.5	1.7	1.4	1.6	1.3	1.4	1.4
Financial leverage (x)	2.1	1.9	1.9	1.8	1.5	1.5	1.5	1.4	1.4
RoE (%)	29.7	38.5	46.7	31.7	23.0	16.1	13.1	16.4	18.2

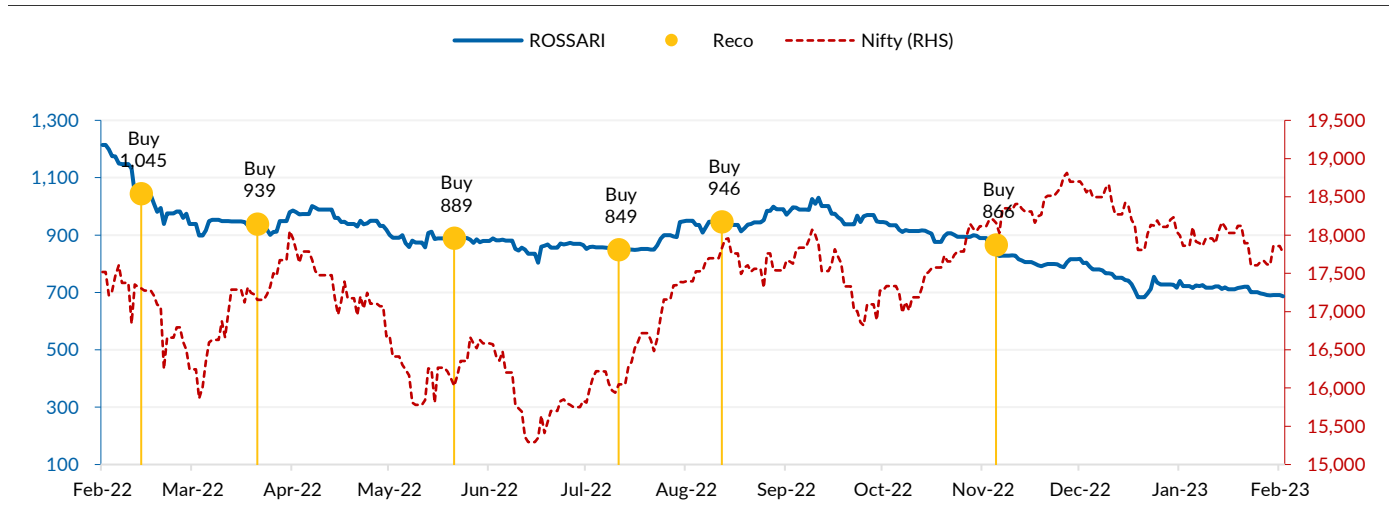
Source: Company, YES Sec

Exhibit 15: Ratio Analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)									
Revenue growth	31.1	25.0	76.8	16.3	18.2	109.1	9.2	17.7	17.4
Op profit growth	90.9	83.4	76.5	33.1	17.5	49.1	22.0	19.1	21.5
EBIT growth	154.9	92.7	67.5	35.3	19.4	34.7	22.2	25.6	26.8
Net profit growth	360.9	84.0	57.2	43.5	22.7	22.0	15.3	44.0	30.4
Profitability ratios (%)									
OPM	10.4	15.3	15.2	17.5	17.3	12.4	13.8	14.0	14.5
EBIT margin	9.0	13.9	13.1	15.3	15.4	9.9	11.1	11.9	12.8
Net profit margin	6.7	9.9	9.7	10.9	11.3	6.6	7.0	8.5	9.5
RoCE	23	31	41	28	22	17	15	17	18
RoE	30	39	42	32	23	16	13	16	18
RoA	14	21	22	18	15	11	9	12	13
Per share ratios									
EPS	27	66	103	13	16	19	22	31	41
Dividend per share	-	0	1	2	2	1	2	3	4
Cash EPS	2	5	7	9	11	10	10	19	29
Book value per share	12	17	24	56	79	156	177	206	244
Valuation ratios									
P/E	32	13	8	65	56	46	31	22	17
P/CEPS	390	187	118	92	78	90	68	36	24
P/B	74	50	36	16	11	6	4	3	3
EV/EBITDA	184.5	100.6	56.8	42.0	35.6	24.1	15.1	12.3	9.7
Payout (%)									
Dividend payout	0.0	0.1	1.0	14.7	10.5	7.7	11.0	10.9	10.9
Tax payout	17	27	27	26	25	28	25	25	25
Liquidity ratios									
Debtor days	60	67	52	55	61	55	60	60	60
Inventory days	53	55	47	56	64	54	70	70	70
Creditor days	68	67	74	100	96	60	60	60	60

Source: Company, YES Sec

Recommendation Tracker



Source: Company, YES Sec

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