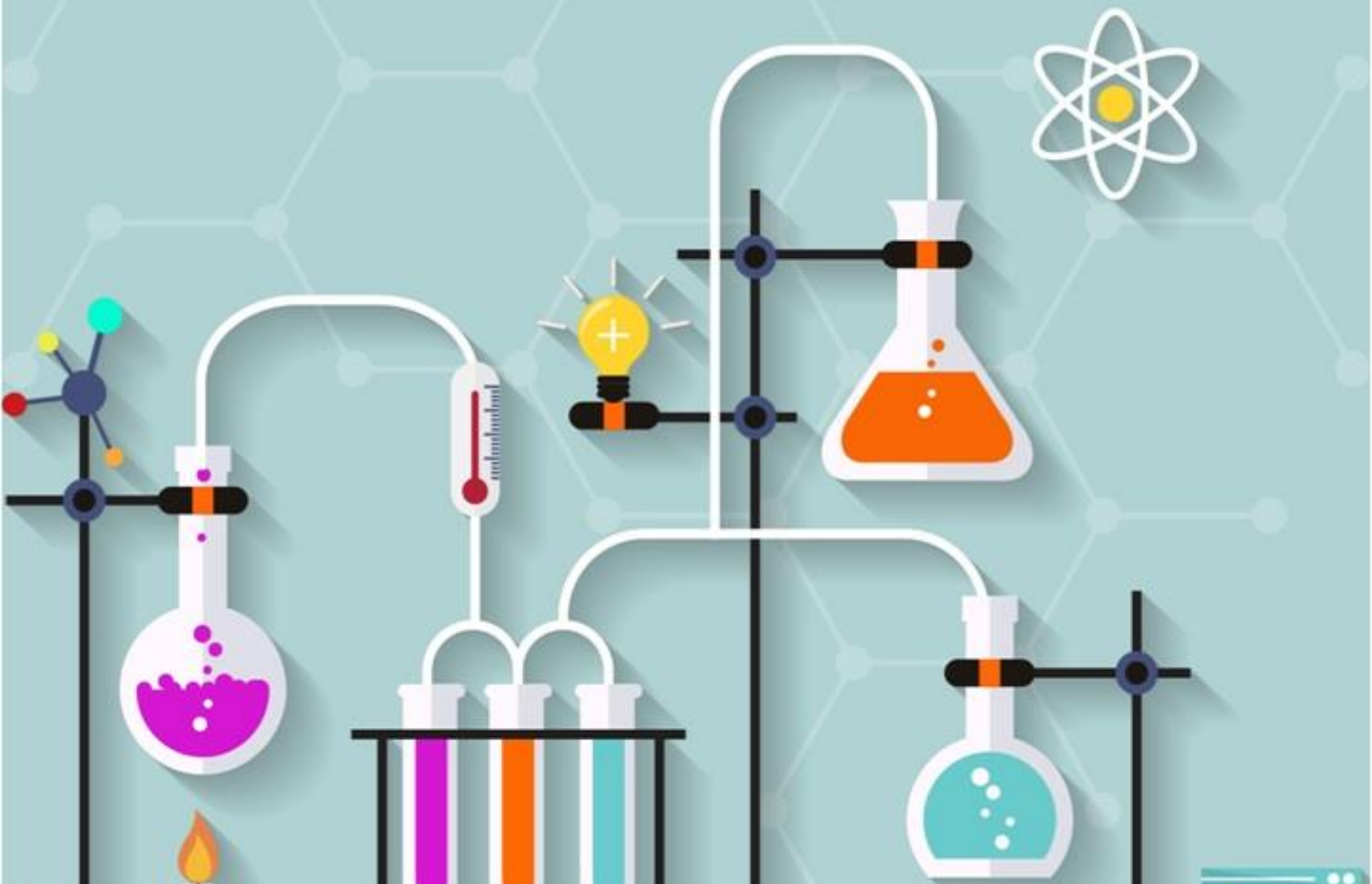


Rossari Biotech Ltd.



Rossari Biotech Ltd.

Margin improved despite challenges in revenue growth

CMP INR 693	Target INR 974	Potential Upside 40.6%	Market Cap (INRmn) INR 38212	Recommendation BUY	Sector Specialty Chemicals
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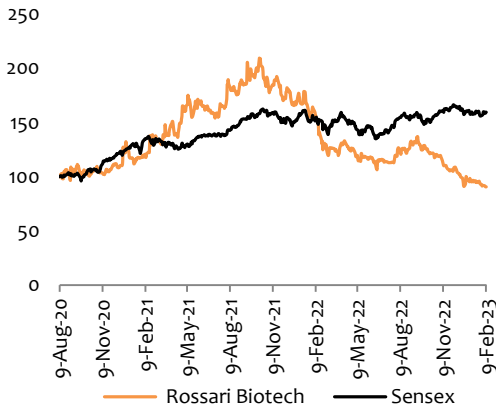
Result Highlights of Q3FY23:

- Rossari Biotech Ltd (RBL) consolidated revenue declined by 9.1% YoY and 8.5% QoQ at INR 3893mn due to subdued demand at the subsidiaries. Stable performance was reported by Textile and AHN segment. On a standalone basis, the company reported a revenue of INR 2369mn(-1.7%/-11.8%) one account of decrease in revenue from Home, personal care and performance chemicals (HPPC) segment.
- EBITDA for the quarter is reported at INR 542mn (+13.4% YoY -4.2%). The EBITDA margins improved +277 bps YoY/ +62bps QoQ at 13.9% owing to softening in the key raw material prices.
- Rossari's net profit increased by +17.4% QoQ (+12.7% YoY) to INR 257mn on the account of better operating margins and lower finance cost. PAT margins for the quarter stood at 6.6%. (+128bps YoY, +98 bps QoQ). EPS is reported at INR 4.66.

MARKET DATA

Shares outs (mn)	55
Equity Cap (INRmn)	110
Mkt Cap (INRmn)	38212
52 Wk H/L (INR)	1200/648
Volume Avg (3m K)	67.9
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,682.7
NIFTY	17,856.5

SHARE HOLDING PATTERN (%)

Particulars	Dec 22	Sep 22	Jun 22
Promoters	68.4	68.4	68.6
FIIIs	8.6	8.8	8.5
DIIIs	14.0	14.1	13.0
Others	8.85	8.5	9.9
Total	100.0	100.0	100.0

Key Financials

INR millions	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6,001	7,093	14,830	16,988	20,280	24,238
EBITDA	1,047	1,231	1,834	2,324	3,020	3,905
PAT	653	800	977	1,221	1,794	2,294
EPS (INR)	13.23	15.47	17.70	22.10	32.48	41.52
EBITDA Margin (%)	17.5%	17.3%	12.4%	13.7%	14.9%	16.1%
NPM (%)	10.9%	11.3%	6.6%	7.2%	8.8%	9.5%

Source: Company data, KRChoksey Research

Revenue decline's but higher profitability:

- The consolidated revenue of Rossari declined by 9.1% YoY/8.5% QoQ to INR 3893mn due to subdued revenue performance in the subsidiaries that led to lower sales in (HPPC) segment for the current quarter. Ongoing challenges in export markets such as Europe and Russia had a substantial impact on Tristar, while Unitop faced headwinds in the agrochemical business. Additionally, the standalone revenue of HPPC segment was also impacted due to loss of a customer but offset by new customer additions, especially one key customer that was added last quarter. HPPC's revenue of INR 2711.7mn fell by 7.7% YoY and 10.8% QoQ.
- Due to the slowdown in the textile industry, revenues from textile chemicals (TSC) fell -19.1% YoY (-2.1% QoQ) to INR 894.6mn. The management expects the slowdown to continue in Q4FY23 as well. Animal Health and Nutrition(AHN) revenues rose 20.2% YoY (-5.2% QoQ) to INR 286mn. The management team is excited to promote the AHN business and anticipates a stronger quarter for this segment in Q4 FY23.
- Despite the fall in revenue, EBITDA margins improved to 13.9% in Q3FY23, compared to 11.1% in Q3FY22, owing to the company's emphasis on higher margin products. The management expects the year to close with revenues of ~INR17 Bn.

Softening of raw material prices led to improvement in the margins:

- EBITDA margins showed a recovery on the account of stability in the key raw material prices, it improved by +277 bps YoY, at 13.9%. PAT margins were at 6.6% which increased +128 bps YoY and 98 bps QoQ.
- Besides this, Rossari is focusing on building a high margin product portfolio, which can be witnessed from the improvement in profitability over the last few quarters. The gross margins have improved from 25% in Q3FY22 to 30% in Q3FY23. The standalone business also shows an improvement, with margins increasing from 22% in Q3 FY22 to 29% in Q3 FY23.
- Management intends to maintain the operating margins throughout the year. Moreover, they expect the margins to move towards ~17%.

Rossari Biotech Ltd.

Key Concall Highlights:

- Rossari biotech has reported a stable standalone performance during the quarter despite the ongoing challenging operating environment. The consolidated revenues fell as the subsidiaries witnessed a slowdown due to subdued demand that affected the HPPC segment.
- The company has been able to maintain its run rate in the HPPC segment on standalone business despite losing one customer, which was offset by adding new customers, especially one key customer that was added last quarter that worked out quite well. Its subsidiary, Unitop's revenue has been hampered due headwinds in agro chemical business, nevertheless the demand will begin to pick up from Mid Feb. Tristar has been impacted due to headwinds in exports to Europe and Russia and the exports have started picking up since late December.
- The TSC segment has been impacted by the slowdown in the textile industry, and this impact is anticipated to continue until Q4FY23. The demand for this industry would increase from May to June.
- The management looks forward to growing and promoting the AHN business. Q4 is expected to be a stronger quarter for AHN, The management believes that going forward, this segment will grow significantly between 30 to 35%
- The management has revised their guidance and expects sales for the year to close around ~INR 17bn and EBITDA around ~INR 2.2-2.3bn. Going forward, they expect at least 15% to 20% growth on the top line with better margin growth of around 13% to 17% over the next two years.
- The company expects the HPPC business to double in 3- 4 years, AHN business to double in 3 years or more, and the textiles business to double in 4 - 5 years.
- The company currently has sufficient headroom within its own facilities and is operating at a capacity utilisation of 55%; as a result, it does not anticipate any significant capex in the coming years.
- The management aims to expand its customer base in their existing segments while also exploring new industries such as water treatment papers, ceramics and cements. Owing to favourable responses from these industries, they are optimistic about achieving growth in these segments in the coming years.

Valuation

Currently, the stock is trading at a PE multiples of 21.3x / 16.7x 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 35.5% CAGR over FY22-24E with EBITDA margin range of 13.5% - 15%. We revised our target price at INR 974/share(Earlier target 1252) (P/E multiple 30x to FY24 EPS) and retain our BUY recommendation on the stock (upside: 40.6%)**

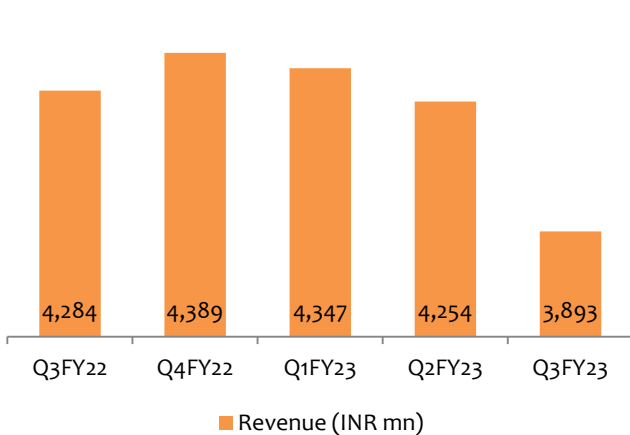
Rossari Biotech Ltd.

Q3FY23 Result Analysis

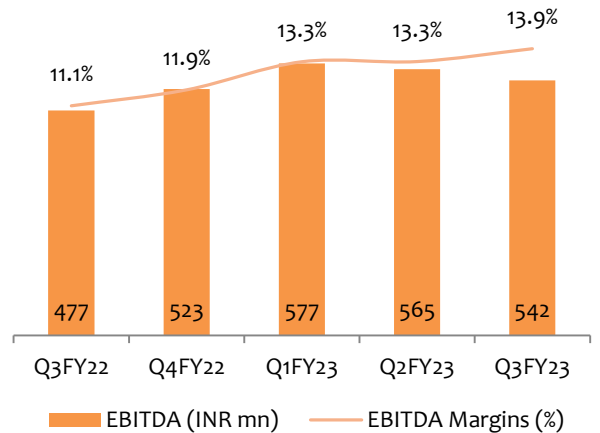
Particulars (INRmn)	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
Revenue from operations	3,893	4,284	-9.1%	4,254	-8.5%
COGS	2,724	3,216	-15.3%	3,018	-9.7%
Gross Profit	1,169	1,068	9.4%	1,237	-5.5%
Gross Margin (%)	0	24.9%	508bps	0	95bps
Employee benefits expense	242	202	19.8%	241	0.2%
Other expenses	385	389	-1.0%	430	-10.4%
EBITDA	542	477	13.4%	565	-4.2%
EBITDA Margin (%)	13.9%	11.1%	277bps	13.29%	62bps
Depreciation and amortisation expense	160	157	1.8%	156	2.1%
EBIT	382	321	19.1%	409	-6.6%
Finance costs	47	48	-3.6%	82	-43.2%
Other income	11	54	-79.2%	8	35.9%
Share of profit from JV/associates	0	2	-87.9%	1	-83.5%
Profit before tax	347	326	6.3%	335	3.4%
Total tax expense	90	99	-9.6%	97	-7.4%
Profit for the period	257	228	12.7%	239	7.4%
PAT Margin (%)	6.60%	5.3%	128bps	6%	98bps
EPS	4.66	4.12	13.2%	4.34	7.4%

Source: Company data, KRChoksey Research

Quarterly Revenue performance (INR mn)



Quarterly EBITDA Performance



Source: Company data, KRChoksey Research

Rossari Biotech Ltd.

QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INRmn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
HPPC*	2,940	3,036	3,165	3,033	2,799
TSC	1,106	1,098	939	919	743
AHN	238	255	243	302	363
Total	4284	4389	4347	4254	3,906
Segment-wise Growth YoY (%)					
HPPC*	146%	180%	139%	28%	-5%
TSC	41%	25%	26%	-16%	-33%
AHN	95%	17%	1%	-22%	53%
Segment-wise Contribution (%)					
HPPC*	69%	69%	73%	71%	72%
TSC	26%	25%	22%	22%	19%
AHN	6%	6%	6%	7%	9%

Source: Company data, KRChoksey Research

SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INRmn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
HPPC	2,809	3,989	5,385	12,189	14,627	17,553
TSC	2,623	2,520	3,528	3,456	3,974	4,570
AHN	569	584	934	1,343	1,679	2,115
Segment-wise Growth (%)						
HPPC	44%	42%	35%	126%	20%	20%
TSC	-3%	-4%	40%	-2%	15%	15%
AHN	10%	3%	60%	44%	25%	26%
Segment-wise Contribution (%)						
HPPC	47%	56%	55%	72%	72%	72%
TSC	44%	36%	36%	20%	20%	19%
AHN	9%	8%	9%	8%	8%	9%

Source: Company data, KRChoksey Research

Rossari Biotech Ltd.

Consolidated Financial Statements

Income Statement (INRmn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue from operations	6,001	7,093	14,830	16,988	20,280	24,238
Total Raw material costs	3,717	4,622	11,050	11,992	13,993	16,482
Gross Profit	2,284	2,472	3,779	4,996	6,287	7,756
Total expenses	1,236	1,241	1,945	2,672	3,266	3,851
EBITDA	1,047	1,231	1,834	2,324	3,020	3,905
Dep & Amort Exps	169	228	481	508	506	505
EBIT	879	1,002	1,354	1,816	2,514	3,400
Finance costs	36	30	127	230	204	185
Other income	37	92	120	42	61	62
Profit before tax	881	1,064	1,347	1,628	2,371	3,276
Total tax expense	226	268	386	420	593	983
Net Profit	653	800	977	1,221	1,794	2,294
Diluted EPS	13.23	15.47	17.70	22.10	32.48	41.52

Source: Company data, KRChoksey Research

Balance Sheet (INRmn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Fixed Assets	818	1,609	3,025	3,017	3,011	3,005
Intangible Assets	48	134	2,605	2,605	2,605	2,605
Investments	179	0	118	118	118	118
Loans and other assets	20	229	99	101	103	106
Trade receivables	941	1,441	3,049	3,492	4,169	5,796
Inventories	582	954	1,899	2,024	2,362	3,202
Cash and cash equivalent	1,272	883	524	994	1,829	2,409
Other Assets	514	263	772	823	880	946
Total Assets	4,715	5,613	12,567	13,656	15,562	18,679
Equity Capital	102	104	110	110	110	110
Reserves	2,765	3,984	7,942	9,124	10,861	13,082
Shareholders Equity	2,867	4,088	8,052	9,234	10,971	13,192
Trade Payables	970	1,311	1,862	1,984	2,315	3,138
Current liabilities	510	182	1,069	1,069	1,069	1,182
Non Current liabilities	345	13	1,540	1,327	1,168	1,048
Provisions	23	19	45	42	40	119
Total Liabilities	4,715	5,613	12,567	13,656	15,562	18,679

Source: Company data, KRChoksey Research

Cash Flow Statement (INRmn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Cash Flow	548	478	294	1,239	1,596	1,329
Investing Cash Flow	-1,903	-372	-2,989	-500	-500	-500
Financing Cash Flow	1,569	-246	2,918	-269	-261	-249
Net Inc/Dec in cash equivalents	215	-140	223	470	835	580
Opening Balance	57	292	152	375	845	1,680
Closing Balance Cash & Cash Eq.	292	152	375	845	1,680	2,260

Source: Company data, KRChoksey Research

Key Ratios	FY20	FY21	FY22E	FY23E	FY24E	FY25E
EBITDA Margin (%)	17.5%	17.3%	12.4%	13.7%	14.9%	16.1%
Net Profit Margin (%)	10.9%	11.3%	6.6%	7.2%	8.8%	9.5%
RoE (%)	31.8%	23.0%	16.1%	14.1%	17.8%	19.0%
ROA (%)	18.1%	15.5%	10.7%	9.3%	12.3%	13.4%
RoCE (%)	27.2%	24.4%	14.1%	17.2%	20.7%	23.8%
Debt/Equity	0.2X	0.0X	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
09-Feb-23	690	974	BUY	Buy	More than 15%
10-Aug-22	935	1,252	BUY	Accumulate	5% – 15%
24-May-22	887	1,252	BUY	Hold	0 – 5%
16-Feb-22	1,043	1,456	BUY	Reduce	-5% – 0
03-Nov-21	1,352	1,612	BUY	Sell	Less than – 5%
01-Oct-21	1,442	1,612	ACCUMULATE		

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