Rossari Biotech Ltd.

Result Update

1st August 2023

Rossari Biotech Ltd.

Robust product launch pipeline will drive future growth

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 841	**INR 982**	**16.8%**	**INR 46,385**	**BUY**	**Specialty Chemicals**

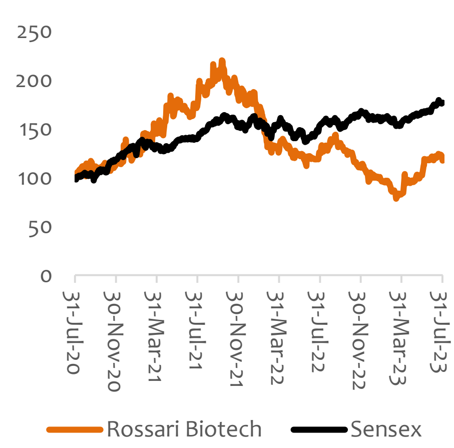
Result Highlights of Q1FY24:

- Rossari Biotech's consolidated revenue stood at INR 4,106 Mn for Q1FY24 which grew by 1% on a QoQ basis (-5.5% YoY) due to muted performance from subsidiaries and stable exports. On a standalone basis, revenue stood at INR 2,583 Mn (-2% QoQ/+10.5% YoY). The company reported steady numbers during the quarter despite weak macroeconomic environment.
- The consolidated EBITDA for the quarter stood flat at INR 577 Mn on a YoY basis and grew 5.8% on a QoQ basis. The EBITDA margin during the quarter stood at 14.1% as compared to 13.3% in Q1FY23 translating to an increase of 78bps YoY and 65 bps QOQ from 13.4% in Q4FY23. Improvement in margin is mainly attributable to efficient management of raw material price volatility and focus on high margin products.
- For Q1FY24, Rossari reported a flat net profit of INR 292 Mn (2.0% YoY, 1.2% QoQ). The quarter's PAT margins also remained at 7.1% (+53 bps YoY, -1 bp QoQ).

MARKET DATA

Shares outs (mn)	55
Equity Cap (INRmn)	110
Mkt Cap (INRmn)	46,385
52 Wk H/L (INR)	1051/536.1
Volume Avg (3m K)	164.6
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,527
NIFTY	19,753

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec 22
Promoters	68.4	68.4	68.4
FIIs	6.1	7.5	8.6
DIIs	17.7	15.1	14.1
Others	7.7	9.0	8.9
Total	100.0	100.0	100.0

Key Financials

INR millions	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,093	14,830	16,559	18,501	21,880
EBITDA	1,231	1,834	2,230	2,579	3,683
PAT	800	977	1,073	1,368	2,166
EPS (INR)	15.47	17.70	19.38	24.80	39.27
EBITDA Margin (%)	17.3%	12.4%	13.5%	13.9%	16.8%
NPM (%)	11.3%	6.6%	6.5%	7.4%	9.9%

Source: Company data, KRChoksey Research

An overall revenue growth, HPPC segment disappoints:

- The HPPC segment witnessed a growth of 7% on QoQ and a de-growth of 11% YoY basis and contributed 68.9% to the total revenue, the revenues from this segment stood at INR 2,829 Mn. During the quarter, the HPPC segment showed a stable performance, even with weak demand in key domestic industries. The positive performance can be attributed to introduction and contribution of new product lines. These new products resulted in offsetting the softer demand in existing industries and contributed to the segment's overall success during the quarter. The performance of the HPPC segment is also affected by the shutdown of the plant due to the implementation of SAP S/4.
- TSC contribution to revenue remained flat on a QoQ basis at 24.2% the revenue from TSC segment stood at INR 993 Mn in Q1FY24 as compared to INR 985 Mn in Q4FY23. The muted performance in this segment is attributable to destocking in the global textile chemicals industry.
- AHN segment witnessed a reduction in revenue on a QoQ basis at -32.9% whereas on a YoY basis the same increased by 17% and stood at INR 285 Mn. The revenue contribution de-grew on a quarterly basis and stood at 6.9% in Q1FY24 as compared to 10.5% in Q4FY23. The AHN segment typically experiences a weak performance during the first quarter of the fiscal year.

Acquisitions of subsidiary, new product launches augurs well for the growth: :

- The company has completed the acquisition of the additional 16% stake in Tristar, making it a 100% wholly-owned company. These inorganic acquisitions will further augment the presence in specialty chemical and expanding revenue streams. This will also extend manufacturing capabilities, enabling production of a wider range of products and meeting increased demands.

R&D:

- In HPPC, the R&D team developed essential ingredients for Pharma API and other industries. For Institutional Chemicals, they focused on creating new products for Indian Railways. In AHN, the R&D team is working on smart and sustainable aquaculture solutions, benefiting farmers in areas like probiotics, feed additives, disinfectants, and pond management technology. Additionally, the company implemented SAP S/4 Hana on Private Cloud to streamline operations across all 6 Group Companies. These initiatives showcase the company's commitment to innovation and growth.

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Key Concall Highlights:

1. In Q1FY24, HPPC generated revenues of INR 2,829 Mn which accounted for 68.9% of total company's revenue. The TSC business contributed INR 993 Mn, accounting for 24.2% of the total company's revenue. While, AHN contributed INR 283 Mn contributing to 6.9% of the company's consolidated total revenue.
2. During the quarter, the HPPC segment demonstrated a stable performance, even with weaker demand in key domestic industries.
3. The addition of new product lines played a crucial role in supporting the overall performance of the segment.
4. The TSC segment's performance remained steady, but its growth was affected by substantial inventory destocking observed in the global markets.
5. The management expects the situation to improve in coming quarters with current inventory being cleared and fresh inventory being stocked.
6. The AHN segment, there was a decline in performance compared to the previous quarter. However, it still showed YoY growth. Generally, first quarter is generally considered a soft quarter.
7. Overall, despite some challenges in certain segments, the company is optimistic about its future performance.
8. The manages anticipates a revenue growth of ~12-14% for FY24E and stable EBITDA margins.

Valuation

Currently, the stock is trading at a PE multiples of 33.9x / 21.4x based on our FY24E / FY25E 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 42.1% CAGR over FY23-25E with EBITDA margin range of 14% - 17%. We retain our target price at INR 982/share (P/E multiple 25x to FY25E EPS) and retain our BUY recommendation on the stock (upside: 16.8%)

Q1FY24 Result Analysis

Particulars (INR mn)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Revenue from operations	4,106	4,347	-5.5%	4,064	1.0%
COGS	2,895	3,106	-6.8%	2,863	1.1%
Gross Profit	1,211	1,241	-2.4%	1,201	0.8%
Gross Margin (%)	29.49%	28.55%	*94bps*	29.56%	*-7bps*
Employee benefits expense	245	235	4.3%	268	-8.4%
Other expenses	388	428	-9.4%	388	0.0%
EBITDA	577	577	0.0%	545	5.9%
EBITDA Margin (%)	14.1%	13.3%	*78bps*	13.4%	*65bps*
Depreciation and amortisation expense	141	153	-7.9%	160	-11.9%
EBIT	436	424	2.9%	385	13.3%
Finance costs	63	51	24.4%	43	45.3%
Other income	22	7	194.4%	28	-22.0%
Share of profit from JV/associates	0	6	-100.0%	2	-100.0%
Profit before tax	395	387	2.1%	372	6.3%
Total tax expense	102	100	2.2%	83	24.1%
Profit for the period	293	287	2.0%	289	1.2%
PAT Margin (%)	7.13%	6.60%	*53bps*	7.11%	*1bps*
EPS	5.30	5.21	1.7%	5.25	1.0%

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QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INRmn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
HPPC*	3165	3033	2712	2654	2829
TSC	939	919	895	985	993
AHN	243	302	286	425	285
Total	**4347**	**4254**	**3893**	**4064**	**4106**
Segment-wise Growth YoY (%)					
HPPC*	139%	28%	-8%	-13%	-11%
TSC	26%	-16%	-19%	-10%	6%
AHN	1%	-22%	20%	67%	17%
Segment-wise Contribution (%)					
HPPC*	73%	71%	70%	65%	69%
TSC	22%	22%	23%	24%	24%
AHN	6%	7%	7%	10%	7%

Source: Company data, KRChoksey Research

SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INRmn)	FY21	FY22	FY23	FY24E	FY25E
HPPC	3994	9661	11564	12596	14922
TSC	2521	4047	3737	4381	4942
AHN	583	1121	1256	1524	2016
Segment-wise Growth (%)					
HPPC	42.2%	88.0%	26.2%	20.0%	20.0%
TSC	-3.9%	50.0%	-14.6%	15.0%	15.0%
AHN	2.5%	80.0%	19.8%	25.0%	26.0%
Segment-wise Contribution (%)					
HPPC	60.0%	65.1%	69.8%	68.1%	68.2%
TSC	33.4%	27%	23%	24%	22.6%
AHN	7.0%	8%	8%	8%	9.2%

Source: Company data, KRChoksey Research

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Consolidated Financial Statements

Income Statement (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue from operations	**7,093**	**14,830**	**16,559**	**18,501**	**21,880**
Total Raw material costs	4,622	11,050	11,713	13,068	14,901
Gross Profit	**2,472**	**3,779**	**4,846**	**5,433**	**6,978**
Total expenses	1,241	1,945	2,615	2,854	3,295
EBITDA	**1,231**	**1,834**	**2,230**	**2,579**	**3,683**
Dep & Amort Exps	228	481	629	590	640
EBIT	**1,002**	**1,354**	**1,601**	**1,988**	**3,043**
Finance costs	30	127	223	244	241
Other income	92	120	55	84	85
Profit before tax	**1,064**	**1,347**	**1,433**	**1,828**	**2,888**
Total tax expense	268	386	370	461	722
Net Profit	**800**	**977**	**1,073**	**1,368**	**2,166**
Diluted EPS	**15.47**	**17.70**	**19.38**	**24.80**	**39.27**

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Fixed Assets	1,682	3,480	3,267	3,345	3,373
Intangible Assets	134	2,605	2,730	2,562	2,393
Investments	0	359	512	512	512
Loans and other assets	229	99	92	103	122
Trade receivables	1,441	3,049	3,537	3,802	4,196
Inventories	954	1,899	1,885	2,027	2,218
Cash and cash equivalent	883	524	1,246	2,506	4,556
Other Assets	291	553	407	452	528
Total Assets	**5,613**	**12,567**	**13,676**	**15,308**	**17,898**
Equity Capital	104	110	110	110	110
Reserves	3,984	7,942	9,041	10,374	12,484
Shareholders Equity	**4,088**	**8,052**	**9,152**	**10,484**	**12,594**
Trade Payables	1,311	1,862	1,852	2,069	2,398
Current liabilities	182	1,069	1,599	1,666	1,789
Non Current liabilties	13	1,540	1,010	1,019	1,034
Provisions	19	45	62	70	82
Total Liabilities	**5,613**	**12,567**	**13,676**	**15,308**	**17,898**

Source: Company data, KRChoksey Research

Cash Flow Statement (INR mn)	FY21	FY22E	FY23	FY24E	FY25E
Operating Cash Flow	478	294	1,524	1,955	2,761
Investing Cash Flow	-372	-2,989	-1,809	-416	-415
Financing Cash Flow	-246	2,918	609	-279	-296
Net Inc/Dec in cash equivalents	-140	223	324	1,260	2,050
Opening Balance	292	152	375	698	1,958
Closing Balance Cash & Cash Eq.	152	375	698	1,958	4,008

Source: Company data, KRChoksey Research

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	17.3%	12.4%	13.5%	13.9%	16.8%
Net Profit Margin (%)	11.3%	6.6%	6.5%	7.4%	9.9%
RoE (%)	23.0%	16.1%	12.5%	13.9%	18.8%
ROA (%)	15.5%	10.7%	8.2%	9.4%	13.0%
RoCE (%)	24.4%	14.1%	15.7%	17.2%	22.2%
Debt/Equity	0.0x	0.0x	0.1x	0.1x	0.1x

Source: Company data, KRChoksey Research

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Date	**CMP (INR)**	**TP (INR)**	**Recommendation**
01-Aug-23	841	982	BUY
03-May-23	689	982	BUY
10-Feb-23	690	974	BUY
10-Aug-22	935	1,252	BUY
24-May-22	887	1,252	BUY
16-Feb-22	1,043	1,456	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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