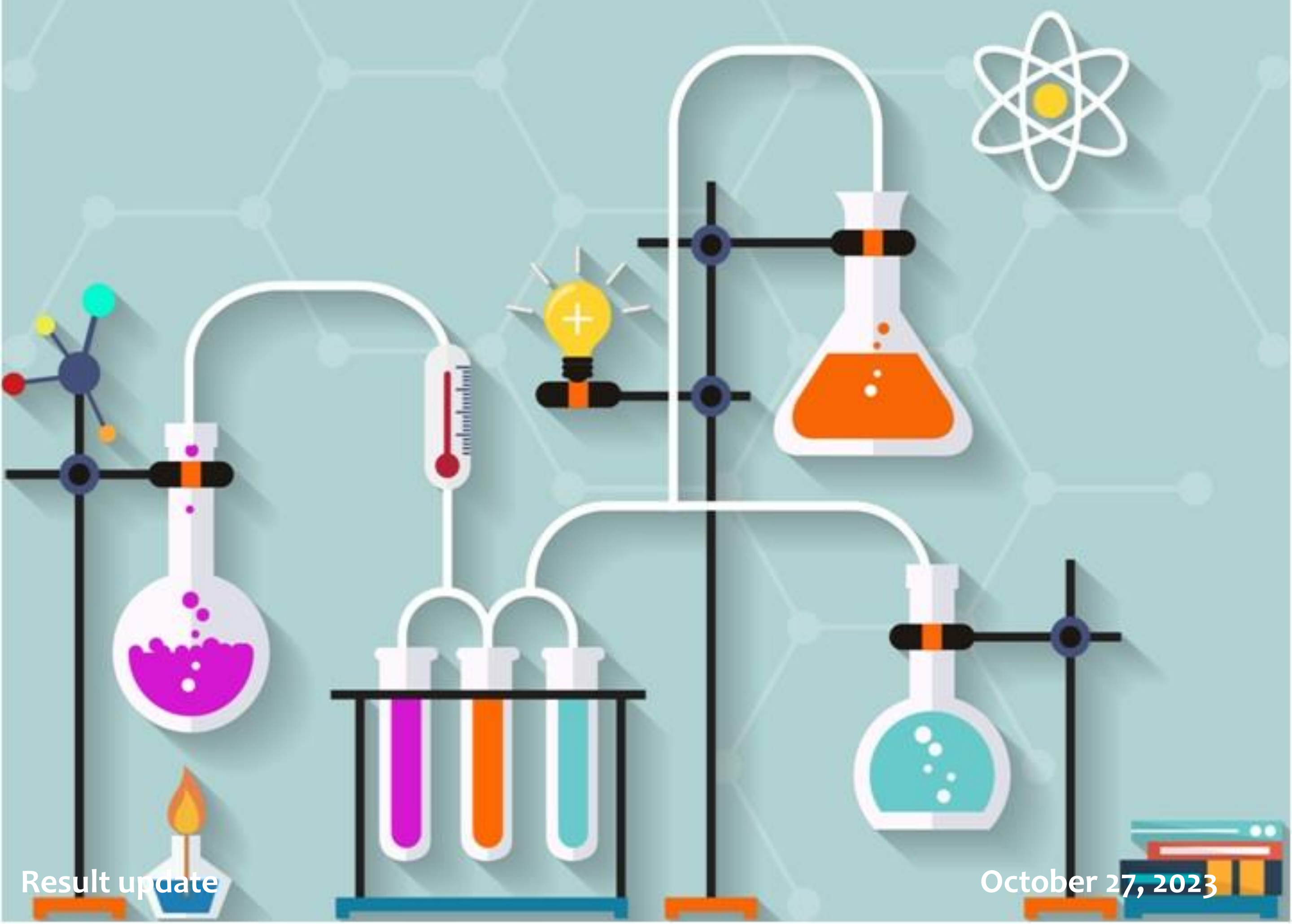
Rossari Biotech Ltd



Result update

October 27, 2023

Rossari Biotech Ltd.

Margins remain under pressure due to price correction

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 765	INR 843	13.0%	INR 42,248	ACCUMULATE	Specialty Chemicals

Result Highlights of Q2FY24:

- On a consolidated basis, Rossari Biotech reported revenue of INR 4,835 Mn in Q1FY24, up by 13.6% YoY and 17.7% QoQ. This is driven by strong double-digit growth in the Home, Personal Care, and Performance Chemicals (HPPC) segment. For H1FY24, revenue grew 3.9% YoY to INR 8,941 Mn.
- EBITDA for the quarter grew by 12.4% YoY and 10.1% QoQ to INR 636 Mn, primarily led by higher revenue. EBITDA margin contracted by 15 bps YoY and 92 bps QoQ to 13.1%. For H1FY24, EBITDA improved by 6.2% YoY to INR 1,213 Mn.
- Net Profit reported at INR 329 Mn for the quarter, higher by 37.8% YoY and 12.8% QoQ. NPM stood at 6.8% (+119 bps YoY/-30 bps QoQ). Net Profit for H1FY24 grew by 18.2% YoY to INR 622 Mn.

MARKET DATA

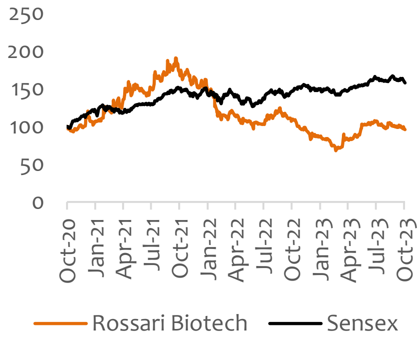
Shares outs (Mn)	55.2
Equity Cap (INR Mn)	9,782
Mkt Cap (INR Mn)	42,248
52 Wk H/L (INR)	927/536
Volume Avg (3m K)	82.6
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

KEY FINANCIALS

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Revenue	7,093	14,830	16,559	18,825	22,753
EBITDA	1,231	1,834	2,230	2,529	3,255
EBITDA margin (%)	17.3%	12.4%	13.5%	13.4%	14.3%
PAT	800	977	1,073	1,322	1,789
PAT margin (%)	11.3%	6.6%	6.5%	7.0%	7.9%
EPS	15.4	17.7	19.3	23.9	32.4
P/E (x)	50.7	44.3	40.5	32.9	24.3

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



HPPC segment drives revenue growth for the quarter: The HPPC segment posted solid double-digit growth (20.8% YoY and 21.9% QOQ) in revenue to reach INR 3,671 Mn. The strong performance in the company's core segment was led by healthy contributions from Institutional cleaning, Paints, and Home and Personal care. The revenue contribution grew to 75.9% of the total revenue in Q2FY24 compared to 71.4% in Q2FY23. The Textile Specialty Chemicals (TSC) segment posted mid-single-digit revenue growth to reach INR 959 Mn, growing by 5.0% YoY and 18.5% on a QoQ basis. The revenue contribution declined to 19.8% of the total revenue in Q2FY24 against 21.5% in Q2FY23. The Animal Health and Nutrition (AHN) segment posted a sharp decrease in revenue (-32.1% YoY and -28.1% QoQ) to reach INR 205 Mn. The subdued results reflect seasonal demand weakness and management's decision to reduce the feed business, given challenges related to payment terms with respect to some customers. The revenue contribution de-grew to 4.2% of the total revenue in Q2FY24 against 7.1% in Q2FY23.

Higher focus on volume push resulted in lower operating leverage despite fall in commodity prices: Gross margin for the quarter was relatively flat on a YoY basis at 29.1% but declined by 39 bps QoQ, while for H1FY24, it improved by 47 bps YoY to 29.3%. EBITDA for Q2FY24 grew by 12.4% YoY/ 10.1% QoQ to INR 636 Mn, with an EBITDA margin contraction of 14 bps YoY/ 92 bps QoQ to 13.1%. This contraction in margins for this quarter was despite a reasonable reduction in raw material costs. The Company's price realization had seen a correction as Rossari was focused on pushing more volume. Moreover, a significant drop in the AHN business impacted overall margins as it is a higher-margin business. Besides this, there was an increase of 15.0% YoY/ 3.0% QoQ in other expenses due to maintenance expenses incurred in Rossari and Unitop plants. With an increase in sales volume, there was an increase in freight, utility consumption, selling and distribution expenses. Considering the current uncertain global situation, the Company is expected to focus on pushing the volumes and growing revenue by improving capacity utilization in FY24E.

MARKET INFO

SENSEX	63,148
NIFTY	18,857

SHARE HOLDING PATTERN (%)

Particulars	Sep-23 (%)	Jun-23 (%)	Mar-23(%)
Promoters	68.4	68.4	68.4
FIIs	17.7	6.1	7.5
DIIs	5.8	17.7	15.1
Others	8.2	7.7	9.0
Total	100	100.0	100.0

17.2%

Revenue CAGR between FY23 and FY25E

29.1%

Adj. PAT CAGR between FY23 and FY25E

ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Rossari Biotech Ltd.

Key Concall Highlights:

(1) Momentum in the HPPC segment is due to strong growth across different segments of personal care, and performance chemicals including coatings, paint, water treatment, paper, and ceramic. In home care, the Company acquired new customers for anti-redeposition agents. The Company has also been able to retrieve lost ground. Rossari is well-positioned to deliver healthy growth in the second half as the underlying industries are expected to pick up.

(2) The outlook for the TSC segment is muted, although management is looking at identifying new opportunities in the space. The focus is on markets such as Bangladesh, where the Company has strengthened its team, as Rossari Bangladesh is now incorporated. The Company expects demand momentum from the Bangladesh market in the coming year. The Company is also seeking to expand into Turkey and Egypt, although recent geopolitical developments may impact prospects; management remains positive on the Textile business for the next calendar year.

(3) Although the AHN segment deteriorated on muted demand and deemphasis of the feed business, the Company's management is hopeful of a recovery for the rest of the year.

(4) The H1FY24 capex of INR 750 Mn was deployed for ETP expansion, solar installation at Dahej, purchase of small brands, packaging machines at Silvassa, and also for maintenance capex.

(5) The Company's capacity utilization at Unitop and Tristar was approaching 100% in Q2FY24, prompting the management to undertake capacity expansion at both, Unitop and the Dahej factory. Capex of INR 500 Mn for Rossari and INR 1,280 Mn for Unitop has been announced for the next 18 months, out of which INR 500 Mn is expected in H2FY24E, implying total capex of INR 1,250 Mn in FY24E.

(6) By Q3FY25E, the entire ethoxylation capacities at Unitop will get capitalized.

(7) Peak revenue incurred should be close to 4x-4.5x asset turnover and expected to be achieved by the fourth-year post commercialization.

(8) The expansion of the Dahej facility by 20,000 MTPA, will enable the Company to enter new domains in the HPPC segment and produce essential ingredients for subsidiary companies. Increasing the Ethoxylation capacity at Unitop from 36,000 MTPA to 66,000 MTPA with a planned addition of 30,000 MTPA is aimed at meeting the future demand in agro chemicals, home and personal care, oil & gas and the pharma sector.

(9) The working capital was higher at the end of Q2FY24 at 98 days against 79 days at the end of Q4FY23, but this was in line with the growing size of the business. The Company had a strong Agro offtake in H1FY24, and the payment cycle is generally long with these customers. Also, the major institutional sale that it did in Q2FY24 had a long payment cycle.

(10) There's been a slight increase in the inventory days also, but this is mainly as the Company had purchased certain key raw materials for stock in the month of September-23 as part of its production planning for Q3FY24E.

(11) Margins were impacted by the weakness in high-margin AHN and the Company's focus on increasing volume and capacity utilization, impacting pricing. Management expects the margins to be in a similar range for the rest of the year. The Company remains focused on diversifying its customer base and targeting higher-margin segments.

(12) ROCE has been constant in the range of 20.0% to 23.0%, and once capex is on stream with substantial capacity utilization probably two years down the line, ROCE is expected to be at the peak of 23%-24%.

Valuation and view:

Currently, the stock is trading at PE multiples of 32.9x/24.3x based on our FY24E/FY25E EPS estimates, respectively. We estimate revenue to grow at 17.2% CAGR over FY23-25E and PAT to grow at 29.1% CAGR over FY23-25E. We cut our FY25E EPS estimates by 17.4% to reflect the adverse impact on price realization as the management is focused on driving volumes while sacrificing margins. The key monitorable is progress in ongoing capex projects in the Dahej and Unitop factories and recovery in the TSC and AHN business segments. **We lower our target price to INR 843/share (P/E multiple of 26.0x to FY25E EPS) from INR 982/share, to account for the EPS reduction, and downgrade our rating to ACCUMULATE (upside: 13.0%). Despite top-line momentum, the persistent margin pressure raises near-term concerns. We view current levels as a good opportunity to add to existing positions, with modest upside.**

Q2FY24 Result Analysis

Particulars (INR Mn)	Q2FY24	Q1FY24	Q2FY23	QoQ	Y oY	H1FY24	H1FY23	YoY
Revenue from Operations	**4,835**	**4,106**	**4,254**	**17.7%**	**13.6%**	**8,941**	**8,601**	**3.9%**
Total Expenditure	**4,199**	**3,529**	**3,689**	**19.0%**	**13.8%**	**7,728**	**7,459**	**3.6%**
Cost of Raw Materials	3,556	2,721	2,612	30.7%	36.2%	6,277.0	5,786.9	8.5%
Purchase of Stock	289	415	422	-30.3%	-31.4%	704.3	602.5	16.9%
Changes in Inventories	-418	-241	-16	73.8%	2438.3%	-658.6	-265.8	147.8%
Employee Cost	275	245	241	12.3%	14.0%	520.5	476.6	9.2%
Other Expenses	496	388	430	27.8%	15.4%	884.4	858.5	3.0%
EBITDA	**636**	**577**	**565**	**10.1%**	**12.4%**	**1,213**	**1,143**	**6.2%**
EBITDA Margin (%)	**13.1%**	**14.1%**	**13.3%**	**-92 bps**	**-15 bps**	**13.6%**	**13.3%**	**28 bps**
Depreciation	151	141	156	7.1%	-3.3%	292.3	309.6	-5.6%
EBIT	**485**	**436**	**409**	**11.0%**	**18.4%**	**921**	**833**	**10.5%**
Other Income	14	22	8	-37.7%	66.3%	35.5	15.6	127.2%
Interest Expense	50	63	82	-20.4%	-38.9%	113.5	133.0	-14.7%
Share of Associates	0.2	-0.5	1	-140.8%	-82.6%	-0.3	7.3	-104.0%
PBT before Exceptional	**448**	**395**	**336**	**13.6%**	**33.3%**	**843**	**723**	**16.5%**
Exceptional Items	0	0	0	NA	NA	0.0	0.0	NA
PBT	**448**	**395**	**336**	**13.6%**	**33.3%**	**843**	**723**	**16.5%**
Tax	119	102	97	15.8%	22.2%	221	197	12.1%
Minority interest	0	0	0	NA	NA	0.0	0.0	NA
PAT	**329**	**292**	**239**	**12.8%**	**37.8%**	**622**	**526**	**18.2%**
PAT Margin (%)	**6.8%**	**7.1%**	**5.6%**	**-30 bps**	**119 bps**	**7.0%**	**6.1%**	**84 bps**
EPS	**6.0**	**5.3**	**4.3**	**12.6%**	**37.4%**	**11.3**	**9.6**	**18.0%**
Adj. PAT	**329**	**292**	**239**	**12.8%**	**37.8%**	**621.7**	**526.0**	**18.2%**
Adj. PAT Margin (%)	**6.8%**	**7.1%**	**5.6%**	**-30 bps**	**119 bps**	**7.0%**	**6.1%**	**84 bps**
Adj. EPS	**6.0**	**5.3**	**4.3**	**12.8%**	**37.5%**	**11.3**	**9.6**	**18.0%**

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INR Mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
HPPC	3,033	2,712	2,654	3,012	3,671
TSC	919	894.6	985	809	959
AHN	302	286.4	425	285	205
Total	**4254**	**3,893**	**4064**	**4106**	**4835**
Segment-wise Growth YoY (%)					
HPPC	28%	-8%	-13%	-5%	21%
TSC	-16%	-19%	-10%	-14%	4%
AHN	-22%	20%	67%	17%	-32%
Segment-wise Contribution (%)					
HPPC	71%	70%	65%	73%	76%
TSC	22%	23%	24%	20%	20%
AHN	7%	7%	10%	7%	4%

Source: Company, KRChoksey Research

SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
HPPC	3,994	9,661	11,570	13,738	17,173
TSC	2,521	4,047	3,731	3,848	4,233
AHN	583	1,121	1,256	1,238	1,348
Total	**7,098**	**14,829**	**16,558**	**18,825**	**22,753**
Segment-wise Growth YoY (%)					
HPPC	42%	142%	20%	19%	25%
TSC	-4%	61%	-8%	3%	10%
AHN	2%	92%	12%	-1%	9%
Segment-wise Contribution (%)					
HPPC	56%	65%	70%	73%	75%
TSC	36%	27%	23%	20%	19%
AHN	8%	8%	8%	7%	6%

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Revenue from operations	**7,093**	**14,830**	**16,559**	**18,825**	**22,753**
Total Raw material costs	4,622	11,050	11,713	13,301	15,836
Gross Profit	**2,472**	**3,779**	**4,846**	**5,524**	**6,917**
Total expenses	1,241	1,945	2,615	2,995	3,662
EBITDA	**1,231**	**1,834**	**2,230**	**2,529**	**3,255**
Dep & Amort Exps	228	481	629	596	715
EBIT	**1,002**	**1,354**	**1,601**	**1,932**	**2,540**
Finance costs	30	127	223	234	241
Other income	92	120	55	77	86
Profit before tax	**1,064**	**1,347**	**1,433**	**1,776**	**2,385**
Total tax expense	268	386	370	454	596
Net Profit	**800**	**977**	**1,073**	**1,322**	**1,789**
Diluted EPS	**15.47**	**17.70**	**19.38**	**23.96**	**32.43**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Operating Cash Flow	478	294	1,524	1,861	2,386
Investing Cash Flow	-372	-2,989	-1,809	-1,173	-414
Financing Cash Flow	-246	2,918	609	-268	-287
Net Inc/Dec in cash equivalents	-140	223	324	421	1,686
Opening Balance	292	152	375	698	1,119
Closing Balance Cash & Cash Eq.	152	375	698	1,119	2,805

Source: Company, KRChoksey Research

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	17.3%	12.4%	13.5%	13.4%	14.3%
Net Profit Margin (%)	11.3%	6.6%	6.5%	7.0%	7.9%
RoE (%)	23.0%	16.1%	12.5%	13.5%	15.8%
ROA (%)	15.5%	10.7%	8.2%	9.1%	10.9%
RoCE (%)	24.4%	14.1%	15.7%	16.8%	19.1%
Debt/Equity	0.0x	0.0x	0.1x	0.1x	0.1x
EBITDA Margin (%)	17.3%	12.4%	13.5%	13.4%	14.3%

Source: Company, KRChoksey Research

Exhibit 4: Balance Sheet

INR Millions	FY21	FY22	FY23	FY24E	FY25E
Fixed Assets	1,682	3,480	3,267	4,089	4,042
Intangible Assets	134	2,605	2,730	2,562	2,393
Investments	0	359	512	512	512
Loans and other assets	229	99	92	105	127
Trade receivables	1,441	3,049	3,537	3,868	4,364
Inventories	954	1,899	1,885	2,063	2,307
Cash and cash equivalent	883	524	1,246	1,666	3,352
Other Assets	291	553	407	459	548
Total Assets	**5,613**	**12,567**	**13,676**	**15,324**	**17,645**
Equity Capital	104	110	110	110	110
Reserves	3,984	7,942	9,041	10,329	12,072
Shareholders' Equity	**4,088**	**8,052**	**9,152**	**10,439**	**12,182**
Trade Payables	1,311	1,862	1,852	2,105	2,494
Current liabilities	182	1,069	1,599	1,688	1,845
Non-Current liabilities	13	1,540	1,010	1,021	1,038
Provisions	19	45	62	71	86
Total Liabilities	**5,613**	**12,567**	**13,676**	**15,324**	**17,645**

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

Rossari Biotech Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
27-Oct-23	765	843	ACCUMULATE
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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•In case of any grievances, please write to grievance@krchoksey.com
•Visit us at www.krchoksey.com
•KRChoksey Shares and Securities Pvt. Ltd.
•CIN-U67120MH1997PTC108958
•Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
•Phone: 91-22-6633 5000; Fax: 91-22-6633 8060
•Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058
•Phone: 91-22-66535000
•Compliance Officer: Varsha Shinde
•Email: varsha.shinde@krchoksey.com