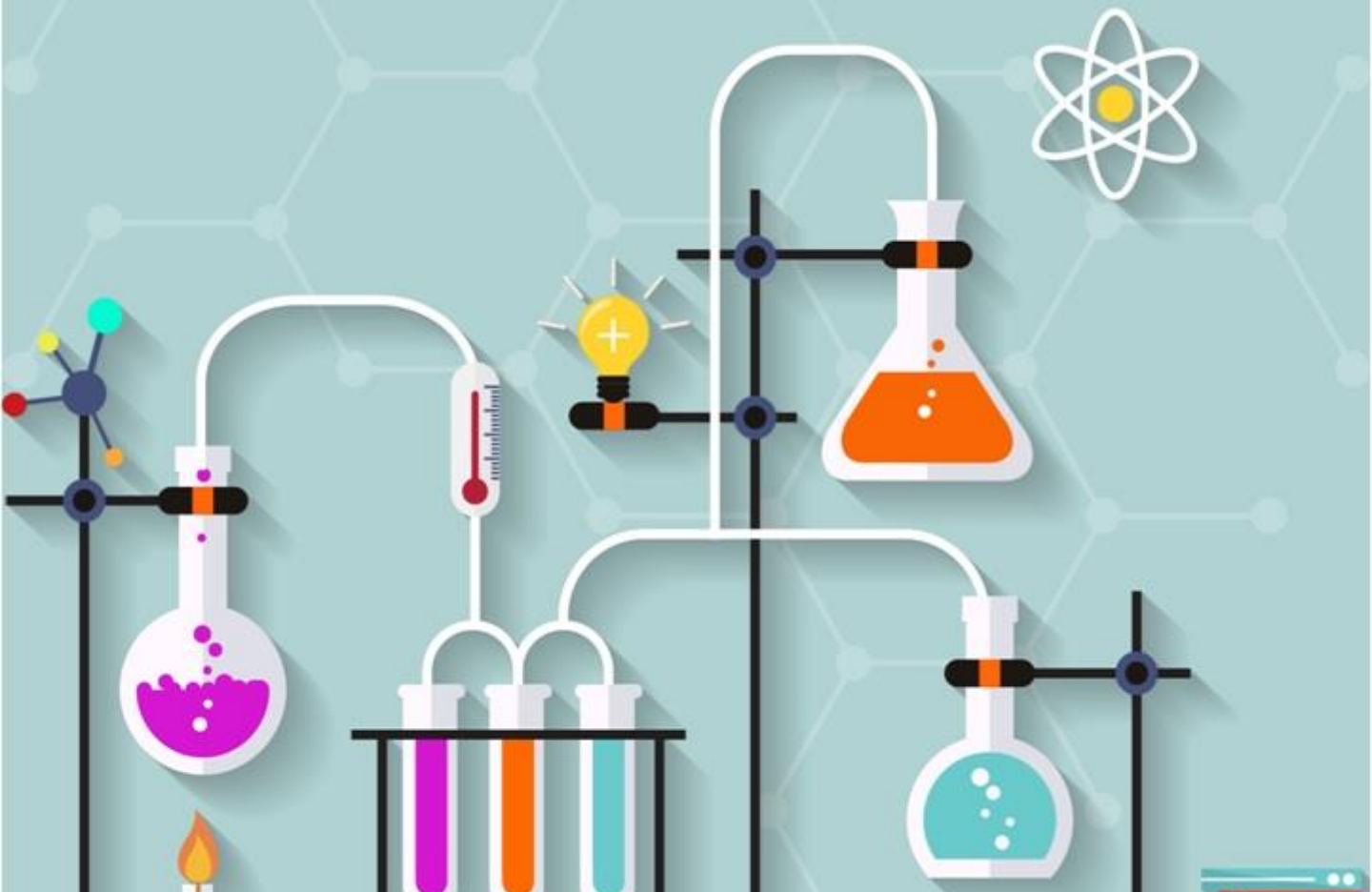


Rossari Biotech Ltd.



Rossari Biotech Ltd.

Strong revenue growth with stable profitability

CMP INR 781	Target INR 925	Potential Upside 18.5%	Market Cap (INR Mn) INR 43,573	Recommendation BUY	Sector Specialty Chemicals
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Result Highlights of Q3FY24:

- On a consolidated basis, for Q3FY24, Rossari Biotech's revenue was INR 4,638 Mn which grew by 19.1% YoY but declined by 4.1% QoQ. We expected revenue of INR 4,819 Mn but it missed our estimates by 3.8%. The growth was driven by strong performance in Home, Personal Care & Performance Chemicals (HPPC) segment. For 9MFY24, revenue was reported at INR 13,578 Mn which grew by 8.7% YoY.
- EBITDA for Q3FY24 was INR 637 Mn which grew by 17.6% YoY and 0.2% QoQ. We expected EBITDA at INR 641 Mn but it missed our estimates by 0.7%. The EBITDA margin contracted 19 bps YoY but expanded 58 bps QoQ to 13.7%. We expected EBITDA margins to be 13.3% but it was higher by 40 bps. The stable raw material prices coupled with growth in revenues supported operating profits. For 9MFY24, EBITDA grew by 9.8% to INR 1,850 Mn. The EBITDA margin expanded by 14 bps YoY to 13.6%.
- Adj PAT for Q3FY24 was INR 344 Mn which grew by 33.9% YoY and 4.4% QoQ. We expected Adj PAT at INR 338 Mn but it was ahead of our estimates by 1.9%. The Adj PAT margin expanded 82 bps YoY and 60 bps QoQ to 7.4%. We expected Adj PAT margins to be 7.0% but it was higher by 40 bps. For 9MFY24, Adj PAT was INR 966 Mn which grew by 23.4% YoY. The Adj PAT margin expanded by 85 bps YoY to 7.1%.

MARKET DATA

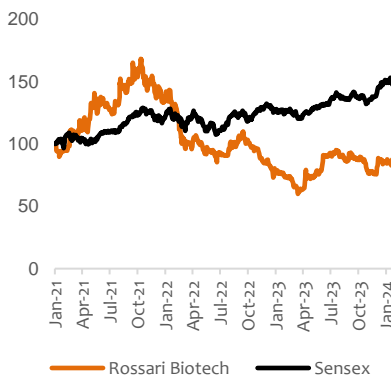
Shares outs (Mn)	55.2
Equity Cap (INR Mn)	9,782
Mkt Cap (INR Mn)	43,573
52 Wk H/L (INR)	904/536
Volume Avg (3m K)	57.8
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

KEY FINANCIALS

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue	14,830	16,559	18,478	21,467	25,518
EBITDA	1,834	2,230	2,523	3,107	3,646
EBITDA margin (%)	12.4%	13.5%	13.7%	14.5%	14.3%
PAT	977	1,073	1,303	1,520	1,897
PAT margin (%)	6.6%	6.5%	7.1%	7.1%	7.4%
EPS	17.7	19.4	23.6	27.6	34.4
P/E (x)	43.9	40.1	33.1	28.3	22.7

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	71,060
NIFTY	21,454

Strong growth in the HPPC segment drives topline

For Q3FY24, Rossari Biotech's revenue was INR 4,638 Mn which grew by 19.1% YoY but declined by 4.1% QoQ. This growth was driven by strong growth in HPPC segment, which posted solid double-digit growth of 31.1% YoY but declined 3.2% QoQ to reach revenue of INR 3,554 Mn. The contributions have come from specialty surfactants, the phenoxy series, institutional cleaning, and performance chemicals. The revenue contribution grew to 76.6% of the total revenue in Q3FY24 compared to 69.7% in Q3FY23. The Animal Health and Nutrition (AHN) segment has shown sequential recovery in revenue with growth of 22.0% QoQ but declined 12.7% YoY to reach revenue of INR 250 Mn. The revenue contribution declined to 7.0% of the total revenue in Q3FY24 compared to 5.4% in Q3FY23. The Textile Specialty Chemicals (TSC) segment posted subdued growth which declined 6.8% YoY and 13.0% QoQ to INR 834 Mn. The slowdown is largely due to weak demand in the textile industry, but it is expected the demand to pick up in both domestic and export markets in FY25E. The revenue contribution declined to 18.0% of the total revenue in Q3FY24 compared to 23.0% in Q3FY23. The management has given guidance for mid-teen overall revenue growth going forward.

Stable RM prices and growth in revenue supported profitability

Gross margin for the quarter has expanded 33 bps YoY and 125 bps QoQ to 30.4%, and for 9MFY24 it expanded 46 bps YoY to 29.6%. EBITDA for Q3FY24 was INR 637 Mn which grew by 17.6% YoY and 0.2% QoQ. The stable raw material prices coupled with growth in revenues supported operating profits. The EBITDA margin contracted 19 bps YoY but expanded 58 bps QoQ to 13.7%. For 9MFY24, EBITDA grew by 9.8% to INR 1,850 Mn. The EBITDA margin expanded by 14 bps YoY to 13.6%. Adj PAT for Q3FY24 was INR 344 Mn which grew by 33.9% YoY and 4.4% QoQ. The Adj PAT margin expanded 82 bps YoY and 60 bps QoQ to 7.4%. For 9MFY24, Adj PAT was INR 966 Mn which grew by 23.4% YoY. The Adj PAT margin expanded by 85 bps YoY to 7.1%. The Company expects to generate sustained profitability in the upcoming quarters, supported by improving capacity utilization. The management has guided for EBITDA margin to be around 13.7% to 14.1% going forward.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23 (%)	Sep-23 (%)	Jun-23 (%)
Promoters	68.3	68.4	68.4
DII's	18.1	17.7	17.7
FII's	4.1	5.8	6.1
Others	9.5	8.2	7.7
Total	100.0	100.0	100.0

15.5%

Revenue CAGR between FY23 and FY26E

20.9%

Adj. PAT CAGR between FY23 and FY26E

Rossari Biotech Ltd.

Key Concall Highlights:

- The robust quarterly performance was predominantly propelled by the core HPPC division. Conversely, the AHN divisions encountered challenges within the industry and experienced seasonal sluggishness. Nevertheless, management anticipates a rebound in the upcoming quarters.
- ROSSARI places significant emphasis on specialized areas such as specialty surfactants, the phenoxy series, institutional cleaning, and performance chemicals.
- By harnessing both existing and new product lines, ROSSARI aims to expand its presence in untapped markets and enhance its market share with current partners.
- The company is dedicated to the development of eco-friendly surfactants, serving as key catalysts for the home and personal care sectors. These surfactants also find diverse applications, ranging from textiles to industrial cleaning and the oil and gas industry.
- As part of a strategic initiative, ROSSARI has revealed its plans to expand the facility in Dahej in the preceding quarter. This expansion is strategically crafted to enable the company to venture into new products within the core HPPC segment.
- Responding to heightened demand in sectors like agrochemicals, home and personal care, oil and gas, and pharmaceuticals, ROSSARI has initiated the expansion of the ethoxylation capacity at Unitop's Dahej facility.
- The expansion initiatives at Dahej are underway and progressing as per the scheduled timeline. These projects are anticipated to be commissioned in stages, with the overall completion targeted for Q3FY25E.
- The comprehensive impact of these expansions is estimated to be INR 1,800 Mn, serving as a significant catalyst for ROSSARI and contributing to its long-term growth trajectory.

Valuation and view:

ROSSARI experienced strong topline growth driven by solid double-digit growth in HPPC segment, this came from sales in specialty surfactants, the phenoxy series, institutional cleaning, and performance chemicals. This growth was offset by a decline in sales growth in the AHN and TSC segments. The slowdown is largely due to weak demand in the textile industry; however, the demand is expected to pick up in both domestic and export markets in FY25E. The expansion initiatives at Dahej with the projected capex of INR 1,800 Mn are progressing as per the scheduled timeline. These projects are expected to complete by Q3FY25E and should serve as a significant catalyst for ROSSARI in its long-term growth trajectory. **Currently, the stock is trading at PE multiples of 28.3x/22.7x based on FY25E/FY26E EPS estimates, respectively. We have introduced FY26E estimates and expect the revenue to grow at 15.5% CAGR over FY23-FY26E, and PAT growing at 20.9% CAGR over FY23-FY26E, with growth expected to continue going forward. We arrive at a target price of INR 925/share (P/E multiple of 26.9x) and maintain our rating of BUY. We reckon that the robust growth from the HPPC segment will continue, recovery in the TSC and AHN segment will contribute to topline and that capex plans are on track to provide long-term growth.**

Q3FY24 Result Analysis

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	9MFY24	9MFY23	Y-o-Y
Revenue from Operations	4,638	4,835	3,893	-4.1%	19.1%	13,578	12,494	8.7%
Total Expenditure	4,001	4,199	3,351	-4.7%	19.4%	11,729	10,810	8.5%
Cost of Raw Materials	2,910	3,556	2,495	-18.2%	16.6%	9,260	8,282	11.8%
Purchase of Stock	253	289	145	-12.6%	74.7%	885	747	18.4%
Changes in Inventories	67	-418	84	-116.0%	-20.7%	-592	-182	226.0%
Employee Cost	260	275	242	-5.4%	7.7%	781	718	8.7%
Other Expenses	511	496	385	3.0%	32.6%	1,395	1,244	12.2%
EBITDA	637	636	542	0.2%	17.6%	1,850	1,684	9.8%
EBITDA Margin (%)	13.7%	13.1%	13.9%	58 bps	-19 bps	13.6%	13.5%	14 bps
Depreciation	151	151	160	-0.2%	-5.5%	443	469	-5.5%
EBIT	486	485	382	0.3%	27.2%	1,407	1,215	15.7%
Other Income	35	14	11	156.7%	214.4%	71	27	163.5%
Interest Expense	43	50	47	-14.0%	-7.4%	157	180	-12.8%
Share of Associates	0.2	0.2	0	0.0%	5.3%	-0.1	8	-101.2%
PBT before Exceptional	478	448	347	6.6%	37.8%	1,320	1,070	23.4%
Exceptional Items	0	0	0	NA	NA	0.0	0.0	NA
PBT	478	448	347	6.6%	37.8%	1,320.5	1,070	23.4%
Tax	134	119	90	12.9%	49.0%	355	287	23.6%
Minority interest	0	0	0	NA	NA	0.0	0.0	NA
PAT	344	329	257	4.4%	33.9%	966	783	23.4%
PAT Margin (%)	7.4%	6.8%	6.6%	60 bps	82 bps	7.1%	6.3%	85 bps
EPS	6.2	6.0	4.7	4.4%	33.7%	17.5	14.2	23.1%
Adj. PAT	344	329	257	4.4%	33.9%	966	782.8	23.4%
Adj. PAT Margin (%)	7.4%	6.8%	6.6%	60 bps	82 bps	7.1%	6.3%	85 bps
Adj. EPS	6.2	6.0	4.7	4.4%	33.7%	17.5	14.2	23.1%

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INR Mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
HPPC	2,712	2,654	3,012	3,671	3,554
TSC	894.6	985	809	959	834
AHN	286.4	425	285	205	250
Total	3,893	4,064	4,106	4,835	4,638
Segment-wise Growth YoY (%)					
HPPC	-8%	-13%	-5%	21%	31%
TSC	-19%	-10%	-14%	4%	-7%
AHN	20%	67%	17%	-32%	-13%
Segment-wise Contribution (%)					
HPPC	70%	65%	73%	76%	77%
TSC	23%	24%	20%	20%	18%
AHN	7%	10%	7%	4%	5%

Source: Company, Deven Choksey Research

SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
HPPC	9,661	11,570	13,767	16,520	20,237
TSC	4,047	3,731	3,538	3,715	3,975
AHN	1,121	1,256	1,174	1,232	1,306
Total	14,829	16,558	18,478	21,467	25,518
Segment-wise Growth YoY (%)					
HPPC	142%	20%	19%	20%	23%
TSC	61%	-8%	-5%	5%	7%
AHN	92%	12%	-7%	5%	6%
Segment-wise Contribution (%)					
HPPC	65%	70%	75%	77%	79%
TSC	27%	23%	19%	17%	16%
AHN	8%	8%	6%	6%	5%

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	14,830	16,559	18,478	21,467	25,518
Total Raw material costs	11,050	11,713	12,964	14,790	17,530
Gross Profit	3,779	4,846	5,514	6,677	7,988
Total expenses	1,945	2,615	2,991	3,570	4,342
EBITDA	1,834	2,230	2,523	3,107	3,646
Dep & Amort Exps	481	629	595	780	780
EBIT	1,354	1,601	1,928	2,327	2,866
Finance costs	127	223	217	241	241
Other income	120	55	91	85	85
Profit before tax	1,347	1,433	1,802	2,171	2,710
Total tax expense	386	370	499	651	813
Net Profit	977	1,073	1,303	1,520	1,897
Diluted EPS	17.7	19.4	23.6	27.6	34.4

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Operating Cash Flow	294	1,524	1,864	2,310	2,196
Investing Cash Flow	-2,989	-1,809	-1,159	-1,715	-1,415
Financing Cash Flow	2,918	609	-250	-280	-289
Net Inc/Dec in cash equivalents	223	324	455	315	491
Opening Balance	152	375	698	1,153	1,469
Closing Balance Cash & Cash Eq.	375	698	1,153	1,469	1,960

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	12.4%	13.5%	13.7%	14.5%	14.3%
Net Profit Margin (%)	6.6%	6.5%	7.1%	7.1%	7.4%
RoE (%)	16.1%	12.5%	13.3%	13.6%	14.8%
ROA (%)	10.7%	8.2%	9.0%	9.4%	10.4%
RoCE (%)	14.1%	15.7%	16.8%	17.9%	19.4%
Debt/Equity	0.0X	0.1X	0.1X	0.1X	0.1X

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Fixed Assets	3,480	3,267	4,089	5,277	6,000
Intangible Assets	2,605	2,730	2,562	2,393	2,244
Investments	359	512	513	513	512
Loans and other assets	99	92	103	120	120
Trade receivables	3,049	3,537	3,797	4,117	4,894
Inventories	1,899	1,885	2,025	2,176	2,587
Cash and cash equivalent	375	698	1,153	1,469	1,960
Bank Balance	149	547	547	547	547
Other Assets	553	407	451	519	519
Total Assets	12,567	13,676	15,240	17,131	19,383
Equity Capital	110	110	110	110	110
Reserves	7,942	9,041	10,311	11,792	13,600
Shareholders Equity	8,052	9,152	10,421	11,902	13,710
Trade Payables	1,862	1,852	2,067	2,353	2,796
Current liabilities	1,069	1,599	1,664	1,763	1,763
Non Current liabilities	1,540	1,010	1,019	1,032	1,032
Provisions	45	62	70	81	81
Total Liabilities and Equity	12,567	13,676	15,240	17,131	19,382

Source: Company, KRChoksey Research

Rossari Biotech Ltd.

Rossari Biotech Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
25-Jan-24	781	925	BUY
04-Jan-24	819	925	BUY
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

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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