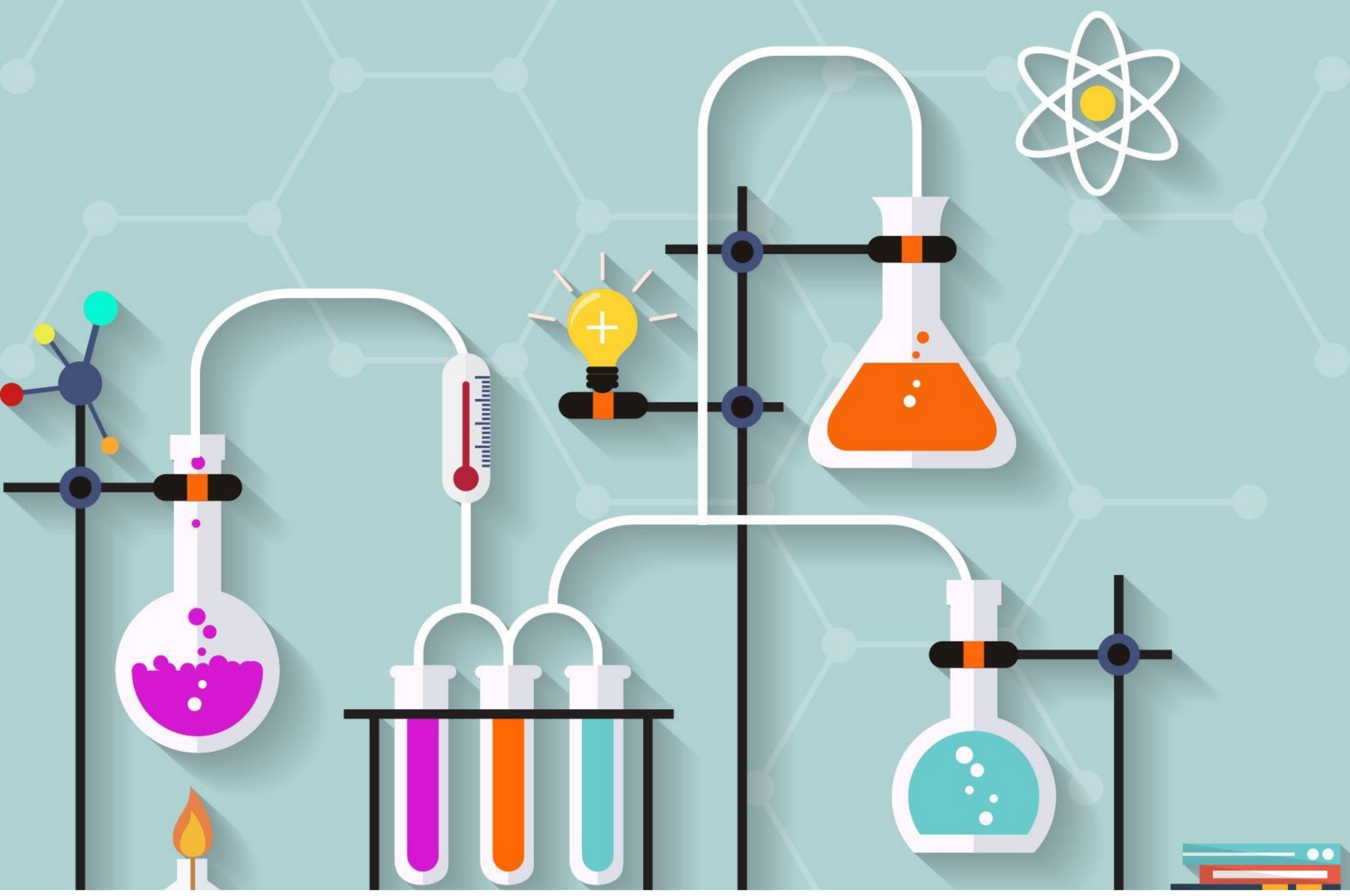
Q1FY25
Rossari Biotech Ltd



Result update 24th July, 2024

Rossari Biotech Ltd

Top-line to grow with the support of volume

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 806*	**INR 931**	**15.6%**	**INR 44,626**	**BUY**	**Specialty Chemicals**

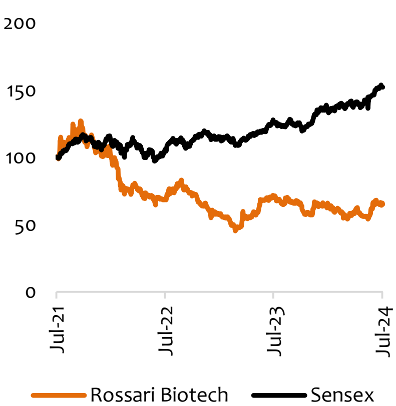
Result Highlights of Q1FY25:

- Rossari Biotech's revenue beat our estimate (+2.8%) due to strong volume growth in HPPC (Home, Personal Care, and Performance Chemicals) business and in the TSC (Textile Specialty Chemicals) division.
- We anticipate this growth momentum in revenue will continue due to strong demand in the end customer segments. Additionally, the upcoming Dahej project, expected to become operational, by the end of FY25E is likely to contribute to the top line from FY26E onwards.
- Currently, the stock is trading at PE multiples of 27.9x/22.8x, based on FY25E/FY26E EPS, respectively. We assign a P/E multiple of 26.4x (previously: 22.0x) on FY26E EPS of INR 35.3 (previously: 38.2) to arrive at a target price of INR 931/share (previously: INR 841/share). Given the 15.6% upside potential, we maintain our BUY rating on the stock.

MARKET DATA

Shares outs (Mn)	55.2
Equity Cap (INR Mn)	10,477
Mkt Cap (INR Mn)	44,626
52 Wk H/L (INR)	896/657
Volume Avg (3m K)	140
Face Value (INR)	2
Bloomberg Code	ROSSARI IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,429
NIFTY	24,479

KEY FINANCIALS

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	14,830	16,559	18,306	22,040	26,166
EBITDA	1,834	2,230	2,498	2,969	3,657
EBITDA margin (%)	12.4%	13.5%	13.6%	13.5%	14.0%
PAT	977	1,073	1,307	1,593	1,945
PAT margin (%)	6.6%	6.5%	7.1%	7.2%	7.4%
EPS	17.7	19.4	23.7	28.9	35.3
P/E (x)	45.2	41.4	34.0	27.9	22.8

Source: Company, KRChoksey Research

Strong volume growth drives the top-line

- For Q1FY25, the revenue grew 19.3% YoY (+3.6% QoQ) to INR 4,897 Mn. This growth was fuelled by significant expansion in the HPPC segment and strong growth in the TSC division.
- HPPC segment grew about 21.2% YoY (+5.8% QoQ). This segment contributed 74.5% of overall revenue in Q1FY25. TSC grew 21.1% YoY (+4.3% QoQ) which contributed 20.0% of the revenue in Q1FY25.
- The Animal Health Nutrition (AHN) segment declined 5.3% YoY (-20.6% QoQ) due to continued industry headwinds.
- In Q1FY25, domestic sales accounted for 75.0% of revenue, while exports made up 25.0%. Export markets exhibited robust growth, nearly doubling YoY in Q1FY25. The export revenue was boosted by initiatives implemented during Q4FY24 in Bangladesh, Vietnam, and Egypt, which significantly contributed to the top line.

Increase in other expenses impacted profitability

- For Q1FY25, EBITDA increased by 12.4% YoY (+2.0% QoQ) to INR 649 Mn. EBITDA margin contracted 81 bps YoY (-20 bps QoQ) to 13.3%.
- The drop in EBITDA margin was primarily due to an increase in other expenses mainly driven by higher freight, travel, maintenance, and selling and distribution costs.
- Net profit increased by 19.4% YoY (+3.1% QoQ) to INR 349 Mn. Net profit margin stayed flat on YoY and QoQ basis at 7.1%.
- The Company considers the current EBITDA margin of 13.3% as a new normal and has given guidance of about 13.0% to 13.5% for FY25E. The Company is willing to accept lower margins in the short term to grow the business, with the expectation that margins will improve in the future.

SHARE HOLDING PATTERN (%)

Particulars	Jun-24 (%)	Mar-24 (%)	Dec-23 (%)
Promoters	68.3	68.3	68.3
DIIs	16.9	17.8	18.1
FIIs	3.8	4.0	4.1
Others	11.0	9.9	9.5
Total	100.0	100.0	100.0

*Based on Previous Closing

19.6%

Revenue CAGR between FY24 and FY26E

22.0%

Adj. PAT CAGR between FY24 and FY26E

RESEARCH ANALYST
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Rossari Biotech Ltd

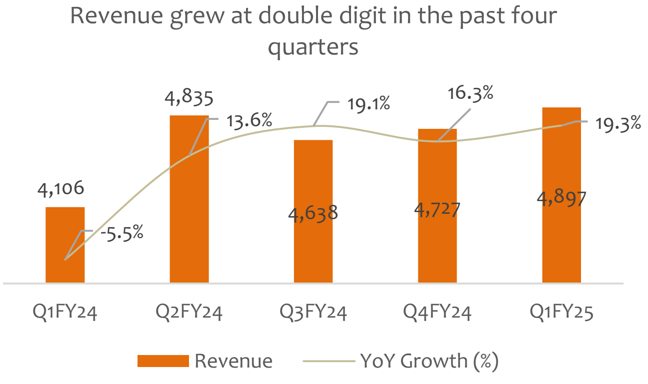
Key Concall Highlights:

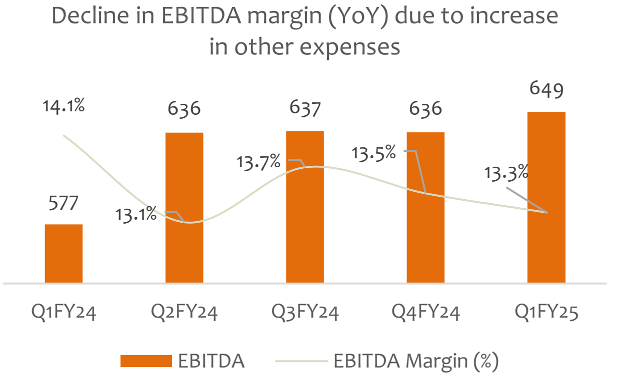
- The **expansion projects at Dahej** are on track and are anticipated to be **completed by the end of FY25E**.
- The expansion involves increasing capacity by **20,000 tons** for **HPPC-related products** in the specialty chemical sector and producing ingredients for subsidiary companies.
- To meet the increasing demand in the agro, home and personal care, oil and gas, and pharma sectors, the Company is also expanding its **ethoxylation capacities by 30,000 metric tons** at Unitop's Dahej facility.
- In Q1FY25, the growth was primarily driven by **strong volume offtake in HPPC and TSC segments**. However, the Company has taken price cuts in few products, **but overall price realization stayed stable.**
- The textile and home textile markets, particularly in the U.S., have fully booked orders with customers in India and Bangladesh.
- The institutional cleaning business generated approximately INR 600 Mn in revenue in Q1FY25, aligning with the management's guidance.
- The **acquisition of Unitop** has significantly **boosted its non-agro business**, resulting in an almost equal split between agro and non-agro sales.
- The Company developed a **single-component emulsifier** for the agrochemical industry, simplifying the formulation process, enhancing long-term stability, and ensuring uniform dispersion of the active ingredient.
- The management's growth strategy is across all different regions, with a particular focus on **agro-surfactants**, the **phenolphthalein, the institutional cleaning, oil and gas and performance chemicals.**

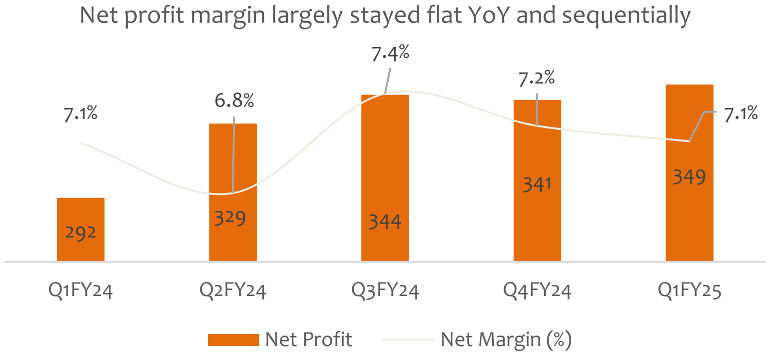
Valuation and view:

Rossari Biotech experienced double-digit revenue growth in Q1FY25, driven by robust volume offtake in the HPPC and TSC segments. Export revenue from Bangladesh, Vietnam, and Egypt further supported the top line. We anticipate this growth momentum will continue due to strong demand in the end customer segments. Additionally, the upcoming Dahej project, expected to become operational by the end of FY25E, is likely to contribute to the top line from FY26E onwards. **We lower our FY25E/FY26E EPS estimates by 7.0% and 8.0%, respectively, due to short-term margin pressure as the Company focuses on top-line growth. The stock has appreciated 11.8% since our last update. Currently, the stock is trading at PE multiples of 27.9x/22.8x, based on FY25E/FY26E EPS, respectively. We expect the revenue to grow at 19.6% CAGR and PAT to grow at 22.0% CAGR over FY24-26E. We assign a P/E multiple of 26.4x (previously: 22.0x) on FY26E EPS of INR 35.3 (previously: INR 38.2) to arrive at a target price of INR 931/share (previously: INR 841/share) as we expect continued growth momentum. Given the 15.6% upside potential, we maintain our BUY rating on the stock.**

Quarterly trend in charts







Source: Company, KRChoksey Research

Rossari Biotech Ltd

QUARTERLY SEGMENT PERFORMANCE

Segment-wise Revenue (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HPPC	3,012	3,671	3,554	3,450	3,650
TSC	809	959	834	940	980
AHN	285	205	250	340	270
Total	**4,106**	**4,835**	**4,638**	**4,730**	**4,900**
Segment-wise Growth YoY (%)					
HPPC	-5%	21%	31%	30%	21%
TSC	-14%	4%	-7%	-5%	21%
AHN	17%	-32%	-13%	-20%	-5%
Segment-wise Contribution (%)					
HPPC	73%	76%	77%	73%	74%
TSC	20%	20%	18%	20%	20%
AHN	7%	4%	5%	7%	6%

Source: Company, KR Choksey Research

SEGMENT-WISE REVENUE ESTIMATES – CONSOLIDATED BASIS

Revenue Model (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
HPPC	9,661	11,570	13,687	16,737	20,503
TSC	4,047	3,731	3,542	4,249	4,546
AHN	1,121	1,256	1,080	1,054	1,117
Total	**14,829**	**16,558**	**18,309**	**22,040**	**26,166**
Segment-wise Growth YoY (%)					
HPPC	142%	20%	18%	22%	23%
TSC	61%	-8%	-5%	20%	7%
AHN	92%	12%	-14%	-2%	6%
Segment-wise Contribution (%)					
HPPC	65%	70%	75%	76%	78%
TSC	27%	23%	19%	19%	17%
AHN	8%	8%	6%	5%	4%

Source: Company, KRChoksey Research

Rossari Biotech Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue from operations	**14,830**	**16,559**	**18,306**	**22,040**	**26,166**
Total Raw material costs	11,050	11,713	12,935	15,392	18,165
Gross Profit	**3,779**	**4,846**	**5,370**	**6,648**	**8,001**
Total expenses	1,945	2,615	2,873	3,679	4,344
EBITDA	**1,834**	**2,230**	**2,498**	**2,969**	**3,657**
Dep & Amort Exps	481	629	604	683	897
EBIT	**1,354**	**1,601**	**1,894**	**2,286**	**2,760**
Finance costs	127	223	194	226	255
Other income	120	55	74	89	89
Profit before tax	**1,347**	**1,433**	**1,774**	**2,149**	**2,594**
Total tax expense	386	370	469	556	648
Net Profit	**977**	**1,073**	**1,307**	**1,593**	**1,945**
Diluted EPS	**17.7**	**19.4**	**23.7**	**28.9**	**35.3**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Operating Cash Flow	294	1,516	433	2,376	2,008
Investing Cash Flow	-2,989	-1,809	-1,032	-1,411	-1,411
Financing Cash Flow	2,918	609	162	-586	-305
Net Inc/Dec in cash equivalents	223	315	-438	379	291
Opening Balance	152	375	692	254	633
Adjustments	0	2	-3	0	0
Closing Balance Cash & Cash Eq.	375	692	252	633	925

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	12.4%	13.5%	13.6%	13.5%	14.0%
Net Profit Margin (%)	6.6%	6.5%	7.1%	7.2%	7.4%
RoE (%)	16.1%	12.5%	13.3%	14.2%	15.1%
ROA (%)	10.7%	8.2%	8.9%	9.6%	10.4%
RoCE (%)	14.1%	15.7%	16.5%	17.6%	18.6%
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	FY24	FY25E	FY26E
Fixed Assets	3,480	3,267	3,619	5,393	6,146
Intangible Assets	2,605	2,746	2,629	2,363	2,213
Investments	359	512	629	630	629
Loans and other assets	99	86	89	114	114
Trade receivables	3,049	3,537	4,251	5,133	6,093
Inventories	1,899	1,885	2,823	2,717	3,226
Cash and cash equivalent	375	692	252	633	925
Bank Balance	149	547	50	50	50
Other Assets	553	392	1,368	528	528
Total Assets	**12,567**	**13,676**	**15,722**	**17,560**	**19,924**
Equity Capital	110	110	110	110	110
Reserves	7,942	9,041	10,367	11,867	13,721
Shareholders Equity	**8,052**	**9,152**	**10,477**	**11,977**	**13,831**
Trade Payables	1,862	1,810	2,191	2,717	3,226
Current liabilities	1,069	1,634	2,011	1,812	1,812
Non Current liabilties	1,540	1,017	957	971	971
Provisions	45	62	85	83	83
Total Liabilities and Equity	**12,567**	**13,676**	**15,722**	**17,560**	**19,924**

Source: Company, KRChoksey Research

Rossari Biotech Ltd

Date	CMP (INR)	TP (INR)	Recommendation
24-July-24	806	931	BUY
08-May-24	723	841	BUY
24-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

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%

ANALYST CERTIFICATION:

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