

JULY 10, 2020

IPO Note**ROSSARI BIOTECH LTD****NOT RATED**

(Note: All the information in this note is taken from RHP)

Background

The company was initially incorporated as “Rossari Labtech” on March 6, 2003, as a partnership firm. The company promoters, Edward Menezes and Sunil Chari, commenced the specialty chemicals business as a partnership firm in the name of ‘Rossari Labtech’ which was subsequently changed to ‘Rossari Biotech’ and the business of the partnership was changed to that of manufacturing, purchase, sale, import, export and otherwise to deal in enzymes, textile auxiliaries, applications and products of biotechnology for textiles, leather, paper, construction materials, pharmaceuticals etc.

Rossari Biotech Ltd is one of the leading specialty chemicals manufacturing companies in India based on sales for Fiscal 2019 providing customized solutions to specific industrial and production requirements of their customers primarily in the FMCG, apparel, poultry and animal feed industries through company’s diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. The company operates in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius. According to the F&S Report, as on September 30, 2019, the company is one of the largest manufacturer of textile specialty chemicals in India providing textile specialty chemicals in a sustainable, eco-friendly yet competitive manner. As a manufacturer of specialty chemicals, the company focus on functionality and application of their products which form a key ingredient to their customers’ manufacturing and industrial processes.

Rossari’s business is organized in three main product categories – (i) home, personal care and performance chemicals; (ii) textile specialty chemicals; and (iii) animal health and nutrition products. As on May 31, 2020, the company had a range of 2,030 different products sold across the three product categories.

The company manufactures majority of the products in-house from their manufacturing facility at Silvassa in the Union Territory of Dadra & Nagar Haveli. The Silvassa Manufacturing Facility, has an installed capacity of 120,000 MTPA. The Silvassa Manufacturing Facility has flexible manufacturing capabilities for powders, granules and liquids. Further, Rossari can interchange capacities across home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products categories, which ensures that they can manufacture any of these products at any point of time depending on the specific requirements of their customers and this facility also has a comprehensive range of testing as well as packaging capabilities. The annual capacity utilization of their Silvassa Manufacturing Facility has moved from 74.19% in Fiscal 2018 to 93.94% in Fiscal 2019 and to 82.46% in Fiscal 2020. The company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA which will enjoy proximity to the deepwater, multi-cargo port of Dahej. The proposed state-of-the-art facility will be well-equipped with advanced technologies and will be commissioned in Fiscal 2021.

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The company has a wide network of distributors through which they sell products. Rossari's pan-India distribution network has over 204 distributors as on May 31, 2020. The company sell home, personal care and performance chemicals; and textile specialty chemicals in a business-to-business model through their distributors primarily to customers in FMCG and apparel industries, respectively; and sells animal health and nutrition products through distributors either in a business-to-business model or to retailers. The company also has 29 distributors spread in over 17 countries. The company has also set up international offices in Ho Chi Minh City, Vietnam and Dhaka, Bangladesh as these two are primary overseas markets for their textile specialty chemical products.

Offer details

Particulars	Details
Price band (Rs/share)	Rs423-425
Opening date of the Issue	July 13th, 2020
Closing date of the issue	July 15th, 2020
No. of shares pre-issue (nos. cr)	5.075
No. of shares post-issue (nos. cr)*	5.193
Fresh Issue (nos. cr)*	0.118
Offer for sale (nos. mn)	1.05
Issue size (Rs cr)*	496.25
Bid Lot	
Book Building QIBs	50%
Non-Institutional	15%
Retail	35%
Lead managers	Axis Capital and ICICI Securities

Source: Company RHP, * Based on upper price band

Shareholding Pattern

	Pre Issue	Post Issue
Promoter holding (%)	95.06	72.69
Public shareholding (%)	4.94	27.31
Total (%)	100	100

Source: Company RHP

Objects of the offer

Particulars	(Rs cr)
Repayment/prepayment of certain indebtedness availed by the company (including accrued interest)	65.0
Funding working capital requirements	50.0
General Corporate Exp	NA

Source: Company RHP

Management Background

Name	Age	Designation	Background
Mr. Edward Menezes	59	Executive Chairman	He is a founder of Company and has been a member of Board since incorporation of the company. He was also a partner of Rossari Biotech prior to the conversion into the Company. He holds a bachelor's degree in science (chemistry major) from K. J. Somaiya College of Science, University of Bombay and a bachelor's degree of science (technology) in textile chemistry from University Department of Chemical Technology (UDCT), University of Bombay.
Mr. Sunil Chari	54	Managing Director	He is a founder of the Company and has been a member of Board since incorporation of the company. He was also a partner of Rossari Biotech prior to the conversion into the Company. He has over 20 years of experience in the specialty chemicals industry. He has more than ten years of experience in different roles within the Company and has been actively involved in the day-to-day running of the company.
Mr. Puneet Arora	45	Chief Executive Officer	He has been associated with the Company since incorporation and has more than 10 years of experience in the field of sales and marketing of textile specialty chemicals and institutional and industrial cleaning chemicals.
Mr. Rupesh Agarwal	48	Chief Executive Officer	He is the chief executive officer of Rossari Personal Care, one of the subsidiaries. He has over 25 years of experience and has been previously associated with Hindustan Unilever Limited, Asian Paints (India) Limited, Lupin Agrochemical India Limited and Glaxo India Limited.
Ms. Manasi Nisal	48	Chief Financial Officer	She joined the Company on November 12, 2019. Previously, she was associated with Huechem Textiles Private Limited as a General Manager – Accounts & Finance

Source: Company RHP

Industry Opportunities

The global specialty chemicals market cumulatively constitutes a global market of approximately USD 237 billion in 2018 and is expected to grow at 5.4% per annum to reach approximately USD 308 billion by 2023. Rossari's presence in the specialty chemicals market, particularly in the home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products, presents significant growth opportunities due to the following factors: (i) demographic overview and rapid urbanisation leading to consumption growth, (ii) growing demand for environmentally sustainable chemicals and (iii) positive regulatory focus from the Indian governmental authorities on manufacturing activities in India. Rossari's relevant global market is expected to grow from a revenue of approximately USD 127 billion in 2018 to approximately USD 167 billion in 2023 at a CAGR of 5.6%. For the same period the relevant Indian specialty chemicals markets for the company is expected to grow from a revenue of approximately USD 7.7 billion in 2018 to approximately USD 13.3 billion in 2023 at a CAGR of 11.6% (Source: F&S Report).

Impact of COVID-19 on business operations

The current outbreak of COVID-19 pandemic has adversely impacted the global economy. The Government of India announced a nation-wide lockdown on March 24, 2020 and imposed several restrictions. However, as the company is engaged in manufacturing of disinfectants and sanitizers as part of their home, personal care and performance chemicals, the company's products were categorized under the 'essential goods' and their Silvassa Manufacturing Facility was not shut down during this pandemic. However, due to limited availability of labour, logistics and supply chain constraints, the plant was operating at sub-optimal capacity utilization in the month of April.

Strengths

Diversified product portfolio addressing the needs of varied and long-standing customers across industries

The company cater to various customers' needs across FMCG, apparel, and poultry and animal feed industries through their diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. For example, in the home, personal care and performance chemicals category, the company currently manufacture and sell over 366 products for their customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. Apart from serving such different industry segments, Rossari also have diverse products under each of these verticals. For example, in soaps and detergents segment, the company manufacture products with varied anti re-deposition agent which enhances product efficacy at different thresholds depending on their respective applications. In the paints and coatings segment, the company manufactures different types of acrylic emulsions and additives like dispersing agent thickeners and defoamers depending on the application as an interior or an exterior paint. These products differentiate various properties of paints like gloss, binding, flexibility, shine etc. In the textile specialty chemicals segment, they cover the entire gamut of products for the entire life-cycle of textile – starting from specialty chemical required for yarn dyeing, yarn lubricants to thread production, dyeing auxiliaries, garment finishing and printing.

The company have multiple products customized for different stages of industrial production of textile. As on May 31, 2020, the company manufactures and sells approximately 1,543 products in the textile specialty chemical sector. The company have also entered into a joint venture with Buzil for manufacturing institutional cleaning, hygiene and disinfection products. Further, company serve a large number of customers across these industry segments. Rossari's customer base currently comprises a host of multinational, regional and local companies. The company's enjoy relationships in excess of five years with 11 out of their top 15 customers. This can be demonstrated by the fact that over 21.50% of their consolidated revenue from operations in Fiscal 2020 was derived from such customers.

Largest textile specialty chemical manufacturer in India

According to the F&S Report, the company is the largest manufacturer of textile specialty chemicals in India as on September 30, 2019. The company provide specialty chemicals for the entire value-chain of the textile industry starting from products for yarn production, production of man-made fibre, thread production, digital printing, fabric processing, dyeing auxiliaries, finishing range, garment finishing to products for printing. The company believes their operations are backed by a strong manufacturing infrastructure for production of textile specialty chemicals, a technically knowledgeable marketing team which understands the specific requirements of their customers in textile industry and an innovative and technically robust R&D team which is able to provide the right solutions with speed and efficiency based on consultations with the marketing team. According to the F&S Report, the demand for textile specialty chemicals have risen owing to the huge production of not just apparels but also rising demand for home furnishings, floor coverings and technical textile globally. The global textile specialty chemicals market is expected to grow at a CAGR of 4.0% (by value) from 2018 to 2023. The company believes the future growth opportunities in the textile specialty chemicals

industry will be primarily driven by diversified and value-added specialty chemicals which provide sustainable solutions and they are well placed to benefit from such growth opportunities. The company continuously focused on manufacturing a wide range of ecofriendly sustainable products including Greenacid, Greensoda, Bioclay (a clay based product), Greenhydro 400 Pdr, Greenboost which both eco-friendly and cost-competitive.

Extensive manufacturing and technical capabilities

The company manufactures majority of their products in-house from the Silvassa Manufacturing Facility, located on 8.6 acres of land. This facility has an installed capacity of 120,000 MTPA. The Silvassa Manufacturing Facility has flexible manufacturing capabilities for powders, granules and liquids which ensures that they can manufacture any of these at any point of time depending on the specific requirements of their customers. This facility has a comprehensive range of testing as well as packaging capabilities. It also has an effluent treatment plant to ensure zero liquid discharge. The company is a contributor to ZDHC which is a testament to their dedicated and sincere efforts towards zero discharge. The Silvassa Manufacturing Facility has received a number of other accreditations and certifications by national and international organizations including ISO 9001:2015 and ISO 14045:2012. This facility also has 2,500 MT bulk storage capacity for acid, alkali, base oils and surfactants. The annual capacity utilization of Silvassa Manufacturing Facility has moved from 74.19% in Fiscal 2018 to 93.94% in Fiscal 2019 and to 82.46% in Fiscal 2020. The company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA to expand their manufacturing capacity in line with company's growth in overall business. The Dahej Manufacturing Facility will also enjoy a proximity to the deep-water, multi-cargo port of Dahej which is a cost and logistical advantage. The proposed state-of-the-art facility will be well-equipped with advanced technologies and will be commissioned in Fiscal 2021.

Strong R&D capabilities with focus on innovation and sustainability

The company's R&D efforts place significant emphasis on improving their production processes, improving the quality of their present products, creating new products and formulation and making production processes of their customers more efficient and sustainable through their effective and eco-friendly products. Rossari's R&D efforts are driven by customer needs, in terms of meeting specific needs that their direct customers communicate to them prior to commencement of manufacturing of these products. As a specialty chemical manufacturing company, the company continuously monitor industry trends so as to ensure that their products continue to remain relevant and help their customers meet the evolving market demands. The company have two R&D facilities – one within the Silvassa Manufacturing Facility and another one in Mumbai and they have a dedicated team of 22 employees in R&D facilities. R&D covers all the three aspects of the products – synthesis research, formulation and development, and technical service. The company believe that their ability to provide eco-friendly sustainable solutions which help customers to reduce their carbon footprint and the overall impact on the environment in a cost efficient manner is a testament to robust R&D capabilities. R&D team has focused on manufacturing a wide range of eco-friendly sustainable products including Greenacid, Greensoda, Bioclay (a clay based product), Greenhydro 400 Pdr, Greenboost which are not only eco-friendly but also competitively priced.

Wide sales and distribution network

The company believes that their growth in the business operations have been made possible by their wide sales and distribution network with whom they enjoy long-standing relationships. The company's pan-India distribution network has over 204 distributors as on May 31, 2020. The company primarily follow a business-to-business or a business-to-business-to-consumer model for their home, personal care and performance chemicals, and textile specialty chemicals product categories. The company has a wide network of 22 distributors spread over 9 states for their home, personal care and performance chemicals in India. The company also have four regional branch offices in Delhi, Ludhiana, Ahmadabad and Surat for marketing of their products to the customers in the North and West Indian regions. In the textile specialty chemicals product category, the company sell their products through a network of 109 distributors spread over 13 states in India and through 19 overseas distributors spread over 16 countries including in the USA, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey. The company has also set up international offices in Ho Chi Minh City, Vietnam and Dhaka, Bangladesh as these two are primary overseas markets for textile chemical products. For animal health and nutrition products, the company sell poultry feeds through a business-to-business model and pet grooming and pet treat products to retail shop owners through 37 distributors.

Experienced Promoters with strong management team having domain knowledge

Rossari Biotech has an experienced management team led by its founders and Promoters, Edward Menezes and Sunil Chari who have cumulatively over 45 years of experience in the chemicals industry and the company benefits immensely from their expertise. The Key Managerial Personnel cumulatively have over 80 years of experience in the specialty chemicals industry. The experience and relationships that its management team has, have enabled them to extend its operating capabilities, improved the technical quality of the products and facilitated its growth in the specialties chemical industry.

Strategies

Expand manufacturing capacity and increase production efficiency

Rossari Biotech seek to capitalize on the growth opportunities in the specialty chemicals industry based on their well-positioned operations, network of distributors and dealers and being led by an experienced management team. The company currently operate one manufacturing facility at Silvassa, in the Union Territory of Dadra & Nagar Haveli from which they produced 86,581.20 MTPA of specialty chemicals in Fiscal 2020. The company is currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA. The company has expanded their product portfolio in their home, personal care and performance chemicals, and textile specialty chemicals product categories significantly. The aggregate volume of production at Silvassa Manufacturing Facility has also increased over the years from 44,512.54 MTPA in Fiscal 2018 to 73,584.21 MTPA in Fiscal 2019 to 86,581.20 MTPA in Fiscal 2020 while the rate of capacity utilization of the Silvassa Manufacturing Facility has moved from 74.19% to 93.94% to 82.46% during the corresponding periods.

Introduce new products and focus on green products which promote sustainability

The company seeks to continue to expand their specialty chemicals product portfolio to cater to the specific requirements of their customers and also expand into new business segments through introduction of new products. The company continuously work on launch of new products through their focused R&D activities. For example, the company is currently planning to launch two new products in the textile finishing range. Additionally, the company is also working towards launch of products in the anti-microbial and electromagnetic protection range. The company seek to focus on formulations for water treatment plants in their home, personal care and performance chemicals category and primarily target to cross-sale this product to their existing customers. The company is also planning to manufacture specialty chemicals for cement industry where they have formulated a specialty additive in-house which is used in the cement manufacturing and which improves the overall productivity and reduces production cost for cement manufacturers. Further, as the single largest textile specialty chemical manufacturer in India (Source: F&S Report), the company want to ensure that their formulations are not only eco-friendly products but also improves the sustainability of the manufacturing and other industrial processes in the textile industry. For example, the company provide Greenacid to a number of textile manufacturers who use it for pH adjustment. Greenacid has replaced the use of conventional acids which was more polluting and at the same time made it more cost efficient for their customers.

Continue to focus on innovation and grow business across customer segments

As a manufacturer of specialty chemicals, the company understands that performance and functionality of their products are the primary drivers for their success with their customers. Accordingly, they seek to continue to focus on their ability to customize their products according to the specific requirements of customers through innovation including creation of new molecules and focusing on sustainable solutions. The company continuously seek to improve on their products to make them more effective for their customers and their applications and processes. The company also seeks to grow their business across diverse customer segments by focusing on innovation and customization of their solutions. Currently the company is serving customers from textile, apparel, soaps and detergents, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. The company is in advanced stages of expanding their home, personal care and performance chemicals product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. The company is also planning to introduce certain new products in the personal care and cosmetics segments. Further, they plan to introduce new formulations including special formulations for mobile-antibacterial for screens, non-alcohol sanitizers and also introduce technologies in newer markets of spin finish, technical textile and textile sizing. The company also seek to expand their product portfolio in the pet food sub-segment and introduce new formulations in this segment.

Increase wallet share with existing customers and continued focus to expand customer base

Rossari Biotech customer base currently comprises a host of multinational, regional and local FMCG companies, apparel and textile companies and poultry feed, animal feed or food-service companies. The company believe that the long-standing relationships that they have enjoyed with their customers over the years and the repeat and increased orders received from them are an indicator of their position as a preferred supplier to leading FMCG, apparel, textile and poultry feed companies. The company plan on utilizing their expanded geographical footprint to address the sourcing requirements of their existing multinational customers in the FMCG, textile and apparel industries as and when they enter new markets, thereby consolidating their position as a preferred supplier across geographies. The company has served 593 customers in Fiscal 2018 and 743 customers in Fiscal 2020. Going forth, the company intends to continue to leverage their sales and marketing network, diversified product portfolio and their industry standing to establish relationships with new multinational, regional and local customers and expand their customer base.

Expand international operations

According to the F&S Report, the global specialty chemicals market is expected to grow at a CAGR of 5.3% with the Asia Pacific market leading with an estimated growth rate of 6-7% during the forecast period. The specialty chemicals industry in India is driven by both domestic consumption and exports. Export of specialty chemicals is also expected to grow as India will gradually become the central manufacturing hub for such specialty chemicals. In line with the market opportunities, the company seek to expand their international footprint and increase their sales from exports. In Fiscal 2020, Fiscal 2019 and Fiscal 2018, revenue from exports was 11.04%, 13.92% and 13.77% of company's total revenue, respectively. However, they aim to increase their share of revenue from exports in future. The company believes that they are well positioned to exploit the opportunities offered by the expected growth in the specialty chemicals industries internationally due to their strong manufacturing capabilities, strong R&D capabilities and wide product portfolio. The company intends to focus on leveraging such opportunities to increase their international operations.

Inorganic growth through strategic acquisitions

Going forward, the company believes that strategic investments and acquisitions of businesses in the specialty chemicals industry may act as an enabler of growing their business. The company believes that their efforts at diversifying into new segments of the specialty chemicals industry or into new domestic or international markets can be facilitated by investing in similar business opportunities or making acquisitions of existing brands or businesses with manufacturing facilities, market share or growth potential, whose operations, resources, capabilities and strategies are complementary to the Company.

The company will also continue to consider opportunities for inorganic growth in India and the Asia Pacific region, particularly to:

- Consolidate their market position in existing business lines;
- Achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits;
- Strengthen and expand their product portfolio;
- Enhance their depth of experience, knowledge-base and know-how; and
- Increase their network of distributors, customers and geographical reach.

Financials

Balance Sheet

Y/E Mar (Rs Cr.)	FY18	FY19	FY20
NON-CURRENT ASSETS			
(a) Property, Plant and Equipment	44	68	82
(b) Right of Use Assets	7	7	7
(c) Capital Work-in-Progress	2	3	22
(d) Intangible Assets	0	6	5
(e) Financial Assets	0	0	0
(i) Investments	0	0	4
(ii) Other Financial Assets	0	0	0
(f) Income Tax Assets (Net)	0	2	2
(g) Deferred Tax Assets	0	0	0
(h) Other Non-current Assets	1	4	24
TOTAL NON-CURRENT ASSETS	55	90	145
CURRENT ASSETS			
(a) Inventories	35	55	58
(b) Financial Assets	0	0	0
(i) Investments	7	0	14
(ii) Trade Receivables	62	86	94
(iii) Cash and Cash Equivalents	1	6	29
(iv) Bank Balances other than cash and cash equivalents	0	0	98
(v) Other Financial Assets	1	1	5
(c) Other Current Assets	5	12	28
TOTAL CURRENT ASSETS	110	160	326
Total Assets	165	250	472
EQUITY			
(a) Equity Share Capital	4	4	10
(b) Other Equity	83	119	277
TOTAL EQUITY	87	124	287
Attributable to owners	87	124	287
Attributable to non-controlling interests	0	0	0
TOTAL EQUITY	87	124	287
LIABILITIES			
NON-CURRENT LIABILITIES			
(a) Financial Liabilities			
Borrowings	1	1	34
(b) Deferred Tax Liability (Net)	2	2	1
(c) Provisions	1	2	2
TOTAL NON-CURRENT LIABILITIES	5	4	36
CURRENT LIABILITIES			
(a) Financial Liabilities			
(i) Borrowings	19	3	27
(ii) Trade Payables	0	0	0
(a) Total outstanding dues of Small Enterprises and Micro enterprises	2	5	5
(b) Total outstanding dues of creditors other than small enterprises and micro enterprises	42	101	92
(iii) Other Financial Liabilities	8	10	16
(b) Provisions	0	1	1
(c) Current Tax Liabilities (Net)	1	0	4
(d) Other Current Liabilities	1	2	4
TOTAL CURRENT LIABILITIES	73	122	149
TOTAL EQUITY AND LIABILITIES	165	250	472

Source: Company, RHP

Profit and Loss Statement

Y/E Mar (Rs Cr.)	FY18	FY19	FY20
Revenue from operations	299	516	600
Other Income	1	1	4
Total Income	300	517	604
EXPENSES			
Cost of materials consumed	197	355	369
Changes in inventories of finished goods and work-in-progress	1	-16	2
Excise Duty	7	0	0
Employee benefits expense	20	28	37
Finance costs	1	3	4
Depreciation and amortization expenses	5	12	17
Other expenses	32	72	86
Total Expenses	263	454	516
Restated Profit before tax for the year	37	63	88
Share of Loss of Joint Venture	0	0	0
Restated Profit before tax for the year	37	63	88
Tax Expense			
Current tax charge	11	18	24
Deferred tax (credit) / charge	1	0	-1
Total Tax Expense	12	18	23
Restated Profit for the year	25	46	65

Source: Company, RHP

Cashflow Statement

Y/E Mar (Rs. Cr)	FY18	FY19	FY20
cash flow generated from operating activities	26	71	55
cash flow used in investing activities	-20	-36	-190
cash flow generated from / (used in) in financing activities	-6	-29	157
Net increase / (decrease) in cash and cash equivalents	-1	6	21
Opening Cash and cash equivalents	2	1	6
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	0	0	2
Closing Cash and cash equivalents	1	6	29

Source: Company, RHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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