

Rossari Biotech Ltd

Price Band: INR 423-425

ISSUE SUMMARY

Issue Opens	13-July-20
Issue Closes	15-July-20
Offer Price (INR per share)	423-425
Face Value (INR)	2.0
Pre Issue Shares o/s (mn)	50.8
^Offer for Sale (No of sh. mn)	10.5
^Fresh Issue (No of sh. mn)	11.7
^Post Issue shares o/s (mn)	51.9
^*Issue Size (INR bn)	5.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR425)

POST ISSUE DETAILS

M.Cap @INR425/sh. (INR bn)	22.1
Shareholding pattern	
Promoters	72.7%
Non-Promoters	27.3%

Rossari Biotech Ltd (RBL) is one of the leading specialty chemicals manufacturing company in India catering to various customers' needs across FMCG, apparel and poultry and animal feed industries.

Diversified product portfolio with wide distribution across industries/geographies: RBL has a well-diversified product portfolio comprising 2,030 different products across three categories, viz. (1) home, personal care and performance chemicals (HPPC; 47% revenue share), (2) textile specialty chemicals (TSC; 44% share) and (3) animal health and nutrition products (AHNP; 10% share). RBL caters to pan-India through 204 distributors and to 17 countries through 29 distributors.

Doubling of capacity by FY21 end: RBL is currently incurring capex of ~INR900mn (~INR750 crore spent so far) to set up manufacturing facility at Dahej, Gujarat with a proposed installed capacity of 132,500 MTPA which will enjoy proximity to the port. This will double its capacity to 252,500 MTPA by FY21 end, thus benefitting RBL from future growth opportunities in the specialty chemical industries in India/overseas.

Robust Financials: Over FY17-20, RBL has recorded Revenue/ EBITDA/ PAT CAGR of 32.3%/ 63.4%/ 65.9% with EBITDA margin expansion of 820 bps to 17.5%. It has a robust working capital of 1-2 months with Fixed Asset Turnover stood at 6.4x. Further it would repay loans taken for recent capex through IPO proceeds; thus becoming debt free again. It enjoys healthy return ratios with ROE/ RoCE of 28.3%/29.1% in FY20.

Issue Size: The INR5bn IPO consists of fresh issue of INR500mn and OFS (by promoters) of INR4.5bn which would result in promoters stake reducing from 95.1% pre-IPO to 72.7% post-IPO. The funds (INR1bn) raised from fresh issue and the Pre-IPO placement will be utilized for debt repayment (INR650mn), working capital requirements (INR500mn) and balance for general corporate purpose.

Valuation & View: At the higher end of the price band, the issue is valued at 33.8x FY20 P/E (fully diluted). While this may appear high, we like the company given its (1) strong financial performance, (2) lean balance sheet and (3) doubling of capacity over next one year which will drive future growth. Hence, investors can Subscribe the IPO from a long term perspective. Further considering market conditions and bright prospects for specialty chemical space, one may also get listing gains.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY17	FY18	FY19	FY20
Revenue	2,594	2,991	5,162	6,001
Growth (%)	-	15.3	72.6	16.2
Adj PAT	143	254	457	653
Growth (%)	-	77.8	79.8	42.8
EPS (INR)	2.8	4.9	8.8	12.6
RoE (%)	11.6	34.1	43.3	28.3
PE (x)	154.5	86.9	48.3	33.8

Source: Company RHP, MOFSL

Ratios are calculated on post issue basis, at the upper price band of INR425

About the Company

Incorporated in 2003, Rossari Biotech Ltd (RBL) is one of the leading specialty chemicals manufacturing company in India, providing customized solutions to customers primarily in the FMCG, apparel, poultry and animal feed industries. It commenced operations as partnership firm 'Rossari Labtech' between two techocrats namely, Mr. Edward Menezes, and Mr. Sunil Chari, having cumulative experience of 45 years in specialty chemicals. Later in 2009, it was converted into a company and the name was subsequently changed to 'Rossari Biotech'.

It caters to specific industrial and production requirements through its diversified product portfolio comprising (1) home, personal care and performance chemicals, (2) textile specialty chemicals and (3) animal health and nutrition products. As on May 31, 2020, it had a range of 2,030 different products sold across these categories.

Besides India, RBL's operations are spread across 17 countries including Vietnam, Bangladesh and Mauritius. It has pan-India distribution network through 204 distributors and caters to 17 countries through 29 distributors. According to the F&S (Frost & Sullivan) Report, as on September 30, 2019, RBL is the largest manufacturer of textile specialty chemicals in India, providing textile specialty chemicals in a sustainable, eco-friendly yet competitive manner.

Exhibit 2: Major Customers

FMCG Companies	Apparel and Textile Companies	Poultry Feed, Animal Feed or Food-Service Companies
<ul style="list-style-type: none"> • RSPL Ltd (Ghadi detergent) • IFB Industries Ltd • Hindustan Unilever Ltd • BSH Household Appliances Manf. • CICO Technologies Ltd • Rentokil Initial Hygiene India Pvt • Millennium Papers Pvt Ltd. 	<ul style="list-style-type: none"> • Arvind Ltd • Ashnoor Textile Mills Ltd • Bhaskar Industries Pvt Ltd • European Textile Chemical Corporation • Shahi Exports Pvt Ltd. 	<ul style="list-style-type: none"> • Hitech Hatch Fresh Pvt Ltd • Gokul Poultry Industries • Sarvottam Poultry Feed Supply Centre • Sneha Farms Pvt Ltd.

Source: RHP, MOFSL

RBL manufactures majority of its products in-house from its manufacturing facility at Silvassa (running at ~82% utilization levels) and currently setting up another manufacturing facility at Dahej in Gujarat with a proposed installed capacity of 132,500 MTPA. It has 2 R&D facilities— one within the Silvassa Manufacturing Facility and second in Mumbai. As a manufacturer of specialty chemicals, it focuses on functionality and application of its products which form a key ingredient to its customers' manufacturing and industrial processes. RBL enjoys strong R&D capabilities which helps in providing customized, innovative, eco-friendly and cost-effective solution to customers in shorter time frame.

Textile specialty chemicals (TSC)

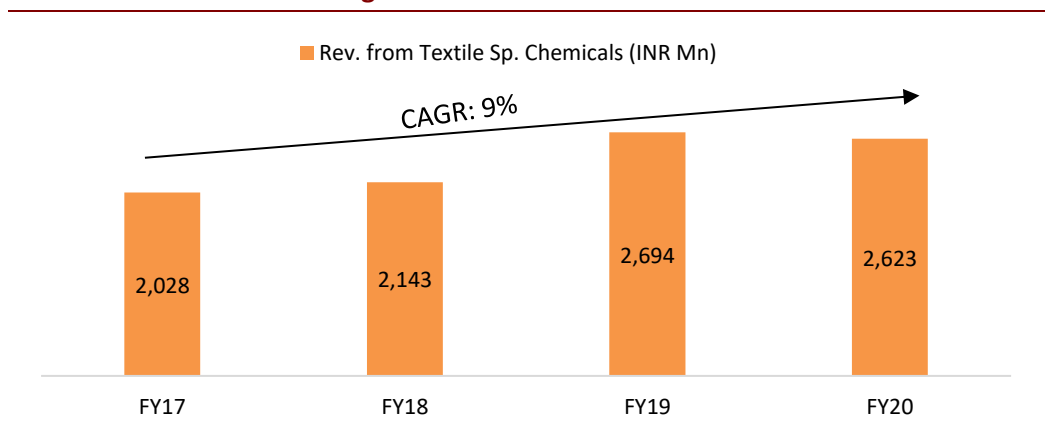
RBL provides specialty chemicals for the entire value-chain of the textile industry starting from fibre, yarn to fabric, wet processing and garment processing. As on May 31, 2020, it manufactured and sold ~1,543 products for its customers in this product category. The company has differentiated its product portfolio by focusing on providing diversified and value added specialty chemicals to enhance hydrophilic properties, anti-microbial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties of the textiles. It focuses on providing eco-friendly sustainable chemical solutions to its customers which either replaces the highly polluting chemicals being used by its customers or reduces the impact of environmental pollution by suitably modifying the overall industrial process.

Exhibit 3: Largest manufacturer of TSC

Industry	Product Application
Yarn production	•Yarn dyeing and finishing, Yarn lubricants, Performance enhancers
Man-made fiber production	•Lubricants, Water based and non-water based, Antistats, Antimicrobial
Thread production	•High performance thread lubricants, Water based and non-water based, Thread finishing
Digital printing	•Performance enhancers and base treatment
Fabric processing	•Pre-treatment of cellulose, Comprehensive pre-treatment range of product
Dyeing auxiliaries	•Full range of products based on dispersant, chelating agents and levelling agents
Finishing range	•Nano, Micro and Macro silicones, Block silicones, Special hydrophilic amido silicones, Cold water soluble Flakes, Easy care finishes, Rope opening, Cationics, Wax emulsions
Garment finishing	•Comprehensive pre-treatment range of product, Performance products, Enzymes and biochemical finishing range
Printing	•Thickeners, Binders, fixers, softeners, Base treatment for digital printing, Special aids

Source: RHP, MOFSL

Exhibit 4: Revenue from TSC grew at a CAGR of 9% over FY17-20



Source: RHP, MOFSL

Home, personal care and performance chemicals (HPPC)

RBL forayed into the HPPC segment in 2013 and has become one of the leading manufacturer of acrylic polymers in India. It currently manufactures over 300 products for its customers in various categories viz: (1) soaps and detergent, (2) paints, inks and coatings, (3) ceramics and tiles, (4) water treatment chemicals and (5) pulp and paper industries. It also manufactures institutional cleaning chemical formulations for hospitality, facility management, airports, corporates, food service, commercial laundry, malls, multiplexes, educational sector, places of worship etc.

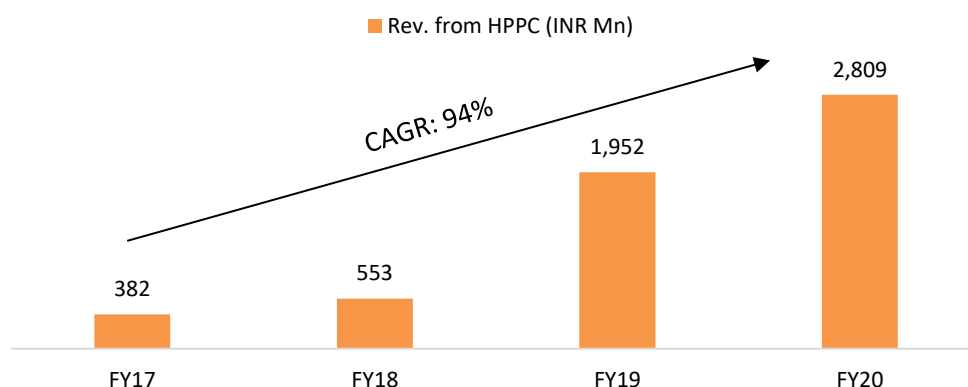
Exhibit 5: Increasing focus on high potential HPPC segment

Industry	Product Application
Soaps and detergents	•Anti re-deposition agent -4 variants, Water softener, Stain busters, Detergent cake and others
Paints and coatings	•Different types of acrylic emulsions, Different types of additives
Ceramics and tiles	•Body binder, Deflocculent, Polishing agent, CMC
Pulp and paper	•Acrylic emulsions, Additives and various products for water treatment
Proposed	
Cement and construction chemicals	•Specialty additive for cement processing
Water treatment formulations	•Boiler chemicals, Cooling tower chemicals, RO chemical, Waste water treatment
Specialty formulation for breweries as well as dairies	•Hinder bacterial growth, Break molasses, Cleaning sugar syrup
Sanitizers for electronic gadgets	•Mobile-antibacterial sanitizers for screens, Non-alcohol sanitizers

Source: RHP, MOFSL

RBL primarily operates in a B2B model. It also sell certain of its end formulas to direct consumers under private label/ partnership with digital market platforms like Amazon.

Exhibit 6: Revenue from HPPC grew at a CAGR of 94% over FY17-20



Source: RHP, MOFSL

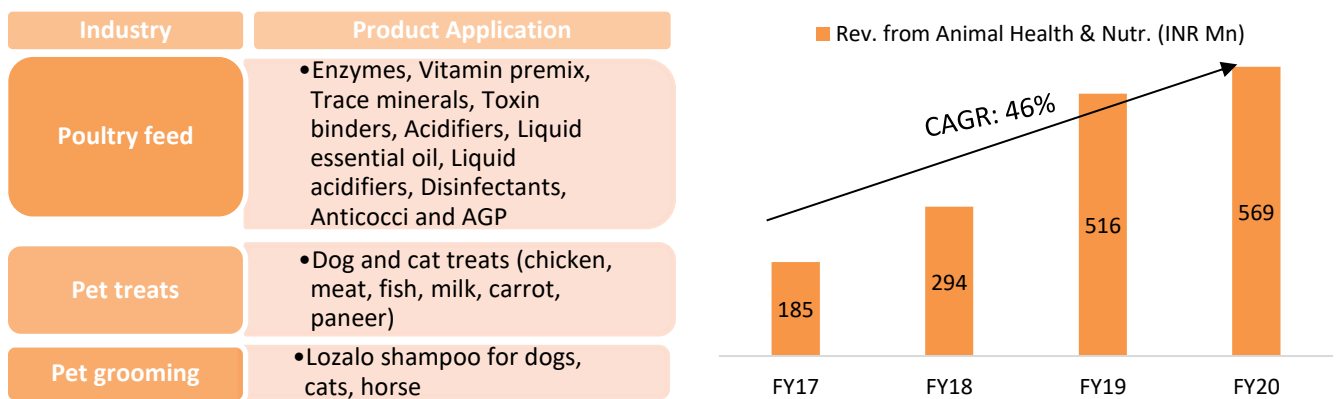
RBL is in advanced stages of expanding its HPPC portfolio to water treatment formulations and specialty formulation for breweries as well as dairies. It is also planning to introduce certain new products in the personal care and cosmetics segments. It plans to introduce new formulations including special formulations for

mobile-antibacterial for screens and non-alcohol sanitizers. Additionally, RBL is planning to manufacture specialty chemicals for cement industry where it will manufacture specialty additive which is used in the cement manufacturing and which improves overall productivity and reduces production cost for cement manufacturers.

Animal health and nutrition (AHNP)

With acquisition of Lozalo in 2019, RBL diversified into animal health and nutrition and currently supply poultry feed supplements and additives, pet grooming and pet treats including for weaning, infants and adult pets. It currently manufactures over 100 products for its customers in this category. While almost all its products under the AHNP category are manufactured in-house, its pet treats are manufactured through job-work contracts. The company sell its poultry feed products through a B2B model and its pet grooming and pet treat products to retail shop owners, in both cases through distributors.

Exhibit 7: Diversified into niche AHNP segment



Source: RHP, MOFSL

Minimal impact of Covid-19 on the business

RBL entered into the manufacturing of disinfectants & sanitizers during Covid-19 in March’20, due to which Silvassa plant did not face shut down. During the initial stages of the lockdown, it faced limited availability of labour, supply chain constraints and logistical problems due to which the facility operated at a sub-optimal capacity in Apr-20. However, now the plant utilization has subsequently improved with raw material suppliers resuming operations and supply & logistics becoming more regular. The HPPC segment has been positively impacted with higher demand for disinfectants & sanitizers, however the TSC segment witnessed a temporary reduction in demand. Due to the COVID-19 pandemic, import of a few raw materials were restricted but were substituted with domestic suppliers in time without impact on continuity of operation.

Peer Comparison

Exhibit 8: Key Matrix as on Mar'20

Company	M.Cap. (INR Bn)	EBITDA Margin	D/E (x)	RoE	P/E (x)	PAT CAGR (FY17-20)
Aarti Industries	165.7	21.7%	0.6	18.9%	30.9	19.3%
Atul Ltd	139.5	22.0%	0.0	22.7%	20.9	27.3%
Vinati Organics	104.6	39.7%	-	28.7%	31.3	33.6%
Fine Organics	60.0	23.1%	0.1	29.5%	36.4	28.4%
Galaxy Surfactants	56.0	14.2%	0.3	23.7%	24.3	15.8%
Rossari Biotech ^	22.1	17.5%	0.2	28.3%	33.8	65.9%

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 9th July, 2020

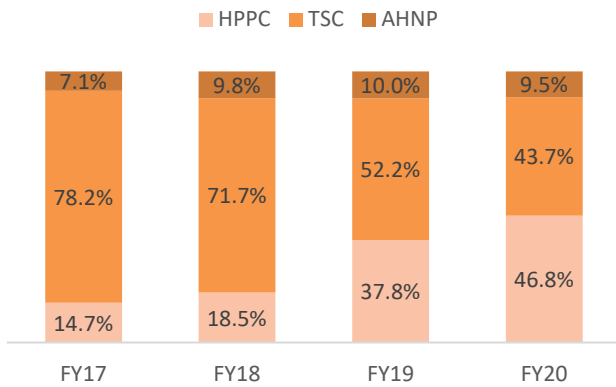
^Calculated on fully diluted basis at upper price band of INR425

Risk and concerns

- Top 5 customers contribute 44% while 10 customers contribute ~54% to the revenue. RBL does not have any long term agreements with most of its customers, and thus the loss of any customer or a reduction in the demand for its products could adversely affect its business.
- Textile specialty chemicals contribute ~44% (FY20) to the revenue and is currently facing demand issue due to Covid-19. Prolonged delay in demand recovery could adversely affect the revenue.
- Further it faces huge competition from the unorganized textile chemical manufacturers (~75% of the textile market in India), which tends to be highly price sensitive.
- Any delay in the commissioning of the Dahej plant could pose a risk to the growth of the company.
- Increase in the cost of raw material may pose a threat to its operational performance

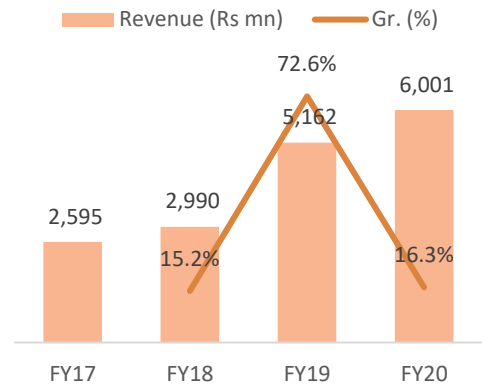
Story in Charts

Exhibit 9: Increasing focus on HPPC segment



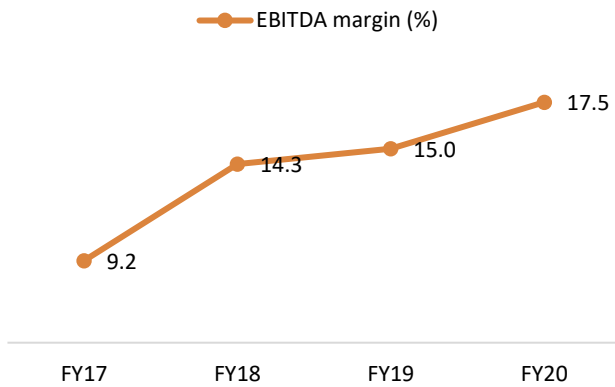
Source: RHP, MOFSL

Exhibit 10: Revenue grew at CAGR of 32% (FY17-20)



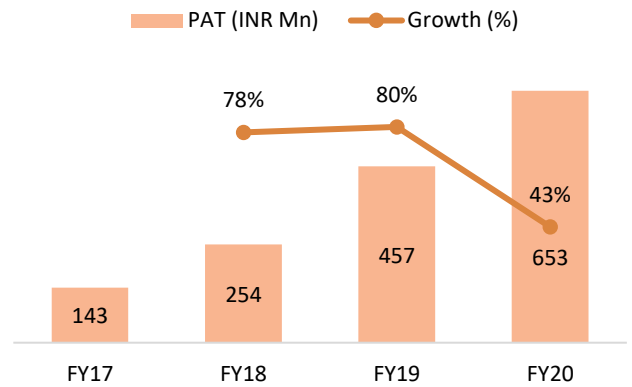
Source: RHP, MOFSL

Exhibit 11: EBITDA margin expands 820 bps (FY17-20)



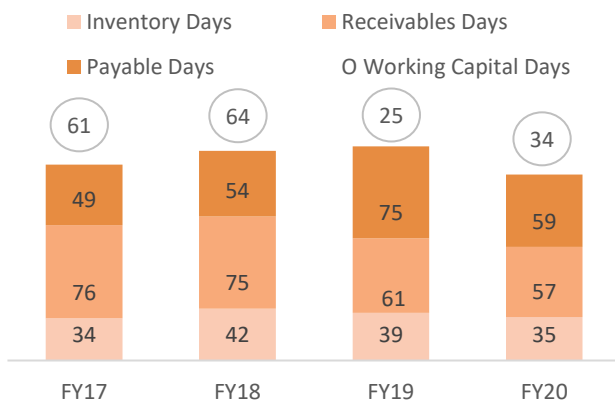
Source: RHP, MOFSL

Exhibit 12: PAT grew at a CAGR of 66% over FY17-20



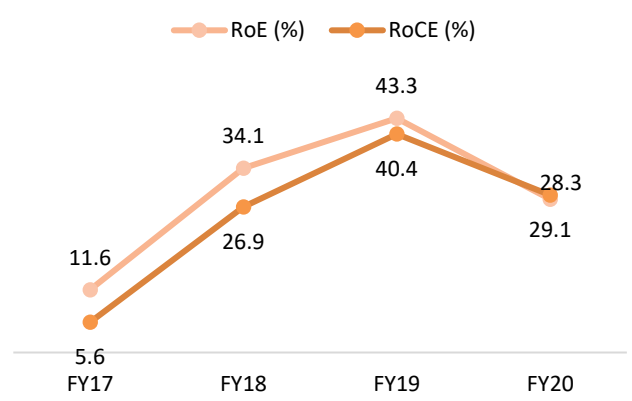
Source: RHP, MOFSL

Exhibit 13: Robust Working Capital Management



Source: RHP, MOFSL

Exhibit 14: Healthy Return Ratios



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY17	FY18	FY19	FY20
Net Sales	2,594	2,991	5,162	6,001
Change (%)	-	15.3	72.6	16.2
Total Expenditure	2,354	2,564	4,386	4,954
% of Sales	90.8	85.7	85.0	82.5
EBITDA	240	426	776	1,047
Margin (%)	9.2	14.3	15.0	17.5
Depreciation	43	52	123	169
EBIT	196	375	654	879
Int. and Finance Charges	21	14	29	36
Other Income	12	14	9	37
PBT	187	375	634	878
Tax	44	121	177	226
Tax Rate (%)	23.7	32.2	27.9	25.7
Min. Int. & Assoc. Share	0.0	0.0	0.0	0.0
Reported PAT	143	254	457	653
Adjusted PAT	143	254	457	653
Change (%)	-	78	80	42.8
Margin (%)	5.5	8.5	8.8	10.9

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY17	FY18	FY19	FY20
Share Capital	44	44	44	102
Reserves	576	827	1,194	2,765
Net Worth	620	871	1,238	2,867
Minority Interest	0	0	0	0
Debt	256	209	45	669
Deferred Tax (Net)	8	20	18	5
Total Capital Employed	884	1,101	1,301	3,541
Net Fixed Assets	443	509	751	888
Capital WIP	3	24	28	218
Intangibles	0	0	60	48
Investments	-	69	0	179
Current Assets	862	1,047	1,659	3,383
Inventory	245	346	549	582
Debtors	540	616	859	941
Cash and Bank Balance	22	10	60	1,272
Loans and Advances & OCA	55	75	191	587
Curr. Liability & Provisions	425	549	1,197	1,174
Account Payables	350	440	1,060	970
Current Liabilities	60	92	114	181
Other Long Term Liab. & Provs.	15	17	24	23
Net Current Assets	437	498	462	2,209
Appl. of Funds	884	1,101	1,301	3,541

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY17	FY18	FY19	FY20
Basic (INR)				
EPS	2.8	4.9	8.8	12.6
Cash EPS	3.6	5.9	11.2	15.8
BV/Share	11.9	16.8	23.8	55.2
DPS	0.1	4.0	1.0	0.0
Valuation (x)				
P/E	154.5	86.9	48.3	33.8
Cash P/E	118.5	72.2	38.1	26.9
P/BV	35.6	25.3	17.8	7.7
EV/Sales	8.6	7.4	4.3	3.6
EV/EBITDA	93.0	52.2	28.4	20.5
Dividend Yield (%)	0.0	0.9	0.2	0.0
Return Ratios (%)				
RoE	11.6	34.1	43.3	28.3
RoCE	5.6	26.9	40.4	29.1
Working Capital Ratios				
Fixed Asset Turnover (x)	5.8	5.9	6.4	6.4
Asset Turnover (x)	2.9	2.7	4.0	1.8
Inventory (Days)	34	42	39	35
Debtor (Days)	76	75	61	57
Creditor (Days)	49	54	75	59
Leverage Ratio (x)				
Net Debt/Equity	0.4	0.2	0.0	-0.4

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted basis

#Calculated on the upper price band of INR425

Cash Flow Statement**(INR mn)**

Y/E March	FY17	FY18	FY19	FY20
OP/(Loss) before Tax	187	375	634	878
Depreciation	43	52	123	169
Interest paid	21	14	29	36
Direct tax paid (net of refund)	-40	-83	-204	-201
(Inc)/Dec in WC	-148	-99	114	-311
CF from Operations	64	257	696	570
Others	4	-2	16	-22
CF from Operating (Net)	67	256	712	548
(Pur)/Sale of Investments	-	-69	69	-137
Investment in JV	-	-	-	-44
Dividend/Interest Received	1	7	6	15
(Pur)/Sale of Fixed Assets	-39	-139	-440	-759
(Inc)/Dec in earmarked & margin account (net)	-1	-3	0	-978
CF from Investments	-39	-204	-364	-1,903
Proceeds from borrowings	-8	-49	-164	629
Interest/Dividend Paid	-21	-16	-127	-59
Proceeds from Issue of share capital	-	-	-	1,000
CF from Fin. Activity	-29	-65	-292	1,569
Net Inc/Dec of Cash	-1	-14	56	215

Source: Company RHP, MOFSL

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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