



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Chemical
Total Issue (Shares) - Offer for sale	10,500,000
Total Issue (Shares) - Fresh Issue	1,176,471
Net Offer to the Public	11,676,471
Issue Size (Rs. Cr.)	493-497
Price Band (Rs.)	423-425
Offer Date	13-Jul-20
Close Date	15-Jul-20
Face Value	2
Lot Size	35 Per Equity Share

Issue Composition

	In shares
Total Issue for Sale	11,676,471
QIB	5,838,235
NIB	1,751,471
Retail	4,086,765

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	95.06%	72.69%
QIB	4.94%	16.07%
NIB	0.00%	3.37%
Retail	0.00%	7.87%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds towards funding the following objects:

1. Repayment/prepayment of certain indebtedness availed by the Company (including accrued interest);
2. Funding working capital requirements; and
3. General corporate purposes

Book Running Lead Manager

- Axis Bank Limited
- ICICI Securities Limited

Name of the registrar

- Link Intime India Private Limited

About the Company

Incorporated in 2009, Rossari Biotech Ltd is a manufacturer of textiles specialty chemicals. It provides customized solutions to the apparel, animal & poultry feed, and FMCG industries by offering a diversified product portfolio. Rossari Biotech operates in 18 countries including India, Bangladesh, Vietnam, and Mauritius. As on September 30, 2019, Rossari Biotech is the largest manufacturer of textile specialty chemicals in India providing textile specialty chemicals in a sustainable, eco-friendly yet competitive manner. It has pan-India distribution network through 204 distributors and 17 countries through 29 distributors.

Strength

Diversified product portfolio: The company caters to various customers' needs across FMCG, apparel, and poultry and animal feed industries through its diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. The company has 1,948 different products range under these three categories. The company enjoys relationships in excess of five years with 11 out of its top 15 customers.

Well-known textile specialty chemical manufacturer in India: The company provides 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 has been 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. Beside at home, the company set up offices in Dhaka, Bangladesh and Ho Chi Minh City, Vietnam to serve its local customers in the South and South-East Asian countries

In-house manufacturing unit: It has a manufacturing unit located at Silvassa, Dadra & Nagar Haveli with an installed capacity of 100,000 MTPA. The company is also setting up a manufacturing unit at Dahej in Gujarat with an installed capacity of 132,500 MTPA. It has more than 194 distributors across India and 27 distributors spread in other 17 countries.

Strong R&D facility: Rossari Biotech also has two R&D facilities in Silvassa and Mumbai locations to focus on new product development, formulations, and cost competitiveness. Its 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.

Pan-India distribution network: The company's pan-India distribution network has over 204 distributors as on May 31, 2020. It has a wide network of 22 distributors spread over 9 states for its home, personal care and performance chemicals in India. It has fits regional branch offices in Delhi, Ludhiana, Ahmadabad and Surat for marketing of its products to the customers in the North and West Indian regions. Its sales and marketing team has 157 dedicated employees and is responsible for increasing pan-India as well as global reach of its products. HUL, IFB Industries & Arvind Ltd are some of its key customers and the firm counts Aarti Industries, Galaxy Surfactants, Atul Ltd, Vinati Organics & Fine Organics Industries as some of its listed peers.

STRATEGIES

Expand manufacturing capacity and increase production efficiency: The company seeks to capitalize on the growth opportunities in the specialty chemicals industry based on its well positioned operations, network of distributors and dealers and being led by an experienced management team. It currently operates one manufacturing facility at Silvassa, in the Union Territory of Dadra & Nagar Haveli from which it produces 86,581.20 MTPA of specialty chemicals in Fiscal 2020. The company believes that its leading presence in the Indian specialty chemicals industry presents us with a significant advantage to benefit from the future growth opportunities in the specialty chemicals industry in India and overseas.

Introduce new products and focus on green products which promote sustainability: The company is planning to launch 2 new products in the textile finishing range. Additionally, it is also working towards launch of products in the anti-microbial and electromagnetic protection range. It is also planning to manufacture specialty chemicals for cement industry which improves the overall productivity and reduces production cost for cement manufacturers.

Continue to focus on innovation and grow its business across customer segments: The company seeks to continue to focus on its ability to customize its products according to the specific requirements of its customers through innovation including creation of new molecules and focusing on sustainable solutions. Moreover, it plans 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. It also seeks to expand its 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: The long-standing relationships that the company has enjoyed with its customers over the years and the repeat and increased orders received from them are an indicator of its position as a preferred supplier to leading FMCG, apparel, textile and poultry feed companies. The company has served 593 customers in Fiscal 2018 and 743 customers in Fiscal 2020.

Expand its international operations: Rossari Biotech seeks to expand its international footprint and increase its sales from exports. In Fiscal 2020, Fiscal 2019 and Fiscal 2018, the revenue from exports was 11.04%, 13.92% and 13.77% of its total revenue, respectively. Rossari Biotech has set up a separate team for exports with the primary objective of expanding its business operations in international markets, create a distribution network and channel partners across geographies and build capabilities to serve such jurisdictions. The company also seeks to enter into co-branding arrangements with such companies. Collaboration with apparel and textile industry brands will be their primary expansion focus in certain geographies. In the animal health and nutrition products category, the company itself or through its distributors have started statutory registrations (with many products already registered) in many countries like Nepal, Bangladesh, Myanmar, Vietnam, Philippines, Egypt, Kenya, Nigeria and Mauritius.

Inorganic growth through strategic acquisitions: The company will continue to consider opportunities for inorganic growth in India and the Asia Pacific region, particularly to: consolidate its market position in existing business lines; achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits; strengthen and expand its product portfolio; enhance its depth of experience, knowledge-base and know-how; and increase its network of distributors, customers and geographical reach.

Risk Factor

The demand from the textile industry for a significant portion of its revenue: The company is reliant on the demand from the textile industry for a significant portion of its revenue. Any downturn in the textile industry or an inability to increase or effectively manage its sales could have an adverse impact on Its Company's business and results of operations.

Dependency on a few major institutional customers: The company derives a significant portion of its revenue from a few major institutional customers in Its TSC and HPPC product categories. Any loss of its major customers or a reduction in their demand for its products could adversely affect its business, results of operations, financial condition and cash flows.

Manufacturing facility situated in Silvassa is critical for its business: Its manufacturing facility situated in Silvassa is critical for its business and any disturbance, slowdown or shutdown of Its Silvassa Manufacturing Facility, may have an adverse impact on its business, results of operations and financial conditions.

Success depends on its ability to develop and commercialize new products in a timely manner: Its success depends on its ability to develop and commercialize new products in a timely manner. If its research and development efforts do not succeed, the introduction of new products may be hindered, which could adversely impact its business, growth and financial condition.

Distribution network is vital to its business: Its distribution network is vital to its business and its inability to expand or effectively manage its distribution network would lead to an adverse impact on its business, financial condition and results of operations.

Peer comparison

(Rs. Crore)

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Atul	4093.06	666.46	224.7	20.96	4.43	1063.68	10	4709.05	13967.04
Vinati Organics	1028.87	333.82	32.48	31.54	8.23	124.48	1	1024.55	10530.53
Aarti Industries	4186.31	536.08	30.77	30.23	5.44	170.93	5	930.25	16208.16
Galaxy Surfact.	2596.38	230.41	64.99	24.31	5.25	301.16	10	1579.85	5601.32
Fine Organic	1038.08	164.78	53.74	35.2	9.37	201.86	5	1891.65	5799.79
Rossari Biotech Limited	600.09	65.25	12.57	33.82	6.56	64.83	2	425.00	2207.00

*Peer Companies comparative financials are based on TTM

*Price valuation based on FY20

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 425, the stock is priced at pre issue P/E of 33.06x on its FY20 EPS of Rs. 12.86. Post issue, the stock is priced at a P/E of 33.82 x on its EPS of Rs. 12.57. Looking at the P/B ratio at Rs. 425 the stock is priced at P/B ratio of 7.52x on the pre issue book value of Rs.56.49 and on the post issue book value of Rs. 64.83 the P/B comes out to 6.56x.

On the lower end of the price band of Rs.423 the stock is priced at pre issue P/E of 32.90x on its FY20 EPS of Rs. 12.86. Post issue, the stock is priced at a P/E of 33.66x on its EPS of Rs. 12.57. Looking at the P/B ratio at Rs. 423, the stock is priced at P/B ratio of 7.49x on the pre issue book value of Rs. 56.49 and on the post issue book value of Rs. 64.83, the P/B comes out to 6.52x.

Industry overview

The specialty chemicals industry is driven by both domestic consumption and exports. Home and personal care chemicals, water chemicals, construction chemicals, etc. are areas where specialty chemicals find applications. The growth of the market is in conjunction with the overall growth of the Indian economy. Exports are on the rise as India is becoming a central manufacturing hub for such chemicals. Tightening of environmental norms (eg. REACH regulations) in developed countries and the slowdown of China are contributing to the growth of exports. The recently launched “Make in India” campaign is also expected to add impetus to the emergence of India as a manufacturing hub for the chemicals industry in the medium term.

Outlook

Rossari Biotech Ltd is a leading specialty chemicals manufacturing company. The company is reliant on the demand from the textile industry for a significant portion of its revenue. However, it derives a significant portion of its revenue from a few major institutional customers in its TSC and HPPC product categories. Moreover, its manufacturing facility situated in Silvassa is critical to its business and any disturbance, slowdown or shutdown of its Silvassa Manufacturing Facility, may have an adverse impact on its business. The company intends to raise Rs 500 crore from the issue, of which 450 crore is offer for sale by the promoter. From the valuation front, the issue looks expensive. On the flip side, from the same domain, many other listed companies with proven track record are available at same or lower valuation.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	July 13, 2020
Bid/Offer Closing Date	July 15, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	July 20, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	July 21, 2020
Credit of Equity Shares to depository accounts of Allottees	July 22, 2020
Commencement of trading of the Equity Shares on the Stock Exchanges	July 23, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)	Period ended 31-Mar-18 (12 Months)
Total Operating Income	600.09	516.22	299.06
Total expenditure	495.35	438.59	256.43
Operating Profit	104.74	77.63	42.63
OPM%	17.45	15.04	14.26
Other Income	3.72	0.91	1.37
PBDIT	108.47	78.53	44.00
Depreciation	16.85	12.26	5.17
PBIT	91.62	66.27	38.83
Interest	3.56	2.88	1.36
PBT	88.06	63.39	37.47
Share of Loss of Joint Venture	-0.22	0.00	0.00
Restated Profit before tax for the year	87.84	63.39	37.47
Tax	22.59	17.71	12.07
Profit After Tax	65.25	45.68	25.40

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-20	As on 31-Mar-19	As on 31-Mar-18
Non-current assets			
Property, plant and equipment	81.76	68.03	43.73
Right of Use Assets	7.02	7.09	7.17
Capital work-in-progress	21.75	2.83	2.40
Intangible assets	4.77	5.97	0.04
Financial assets			
Investments	4.18	0.00	0.00
Other financial assets	0.40	0.35	0.31
Income tax assets (net)	1.58	1.55	0.02
Deferred tax assets (net)	0.05	0.05	0.02
Other non-current assets	23.71	4.21	1.34
Total Non- Current Assets	145.19	90.09	55.01
Current assets			
Inventories	58.17	54.90	34.61
Financial assets			
Investments	13.73	0.00	6.91
Trade Receivables	94.14	85.92	61.56
Cash and Bank balances	29.21	5.74	0.63
Bank Balances other than cash and cash equivalents	98.02	0.27	0.34
Other financial assets	5.39	1.37	0.90
Other current assets	27.67	11.56	4.99
Total current assets	326.32	159.76	109.94
Total Assets	471.52	249.85	164.95
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	33.96	0.67	1.29
Deferred tax liabilities (net)	0.54	1.81	2.05
Provisions	1.63	1.75	1.25
Total non-current liabilities	36.13	4.24	4.58
Current liabilities			
Financial liabilities			
Borrowings	27.05	3.27	18.83
Trade payables			
-Total outstanding dues of micro enterprises and small enterprises	5.13	4.62	2.02
-Total outstanding dues of creditors other than micro enterprises and small enterprises	91.88	101.37	41.94
Other financial liabilities	16.19	10.04	7.66
Provisions	0.67	0.60	0.46
Current tax liabilities (net)	3.66	0.03	1.44
Other Current tax liabilities (net)	4.14	1.88	0.94
Total current liabilities	148.71	121.80	73.29
Total liabilities	184.84	126.03	77.87
Net worth represented by:			
Equity share capital	10.15	4.40	4.40
Other equity	276.53	119.41	82.68
Total Equity	286.68	123.81	87.08

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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