

**Issue Details**

Listing	NSE & BSE
Open Date	13/07/2020
Close Date	15/07/2020
Price Band	423-425
P/E Band	33.6-33.7

**Business Overview:**

**Rossari Biotech (Rossari) is one of the leading specialty chemicals manufacturing company in India, catering to various customer needs across FMCG, apparel, and poultry and animal feed industries. The company has built focused R&D capabilities around customer requirements and sustainable products and processes. Rossari operates in 18 countries, including India, Bangladesh, Vietnam, and Mauritius. The company has a range of 1,948 different products under the three segments given below. It has 2 R&D facilities, one at Silvassa and the other at Mumbai for synthesis research, technical services and new product formulation and development. Rossari is a flexible & agile company known for its speed to market in innovating products and customized solutions.**

**Issue Structure (In %)**

Fresh issue	2.3
Offer for Sale	20.2

**Rossari's business can be largely categorized into the following segments:**

**Home, Personal Care & Performance Chemicals**

**Rossari manufactures a whole range of products that find application in Home, Personal Care formulations, especially in the laundry and cleaning space. Being performance enhancers, they contribute significantly to the product experience and utility. The company focuses on its principle of providing environment-friendly products that save energy and valuable natural resources.**

**Shareholding Pattern (%)**

	Pre	Post
Promoter	95.06	77.5
Other Shareholders	4.94	22.5
Total	100.0	100.0

**The company manufactures over 300 products for its customers, which range from**

- polymers that find use in the detergent and cleaning industry
- emulsions which enhance the look, feel and performance of paints and paper;
- products that improve the strength and processability of ceramics, and
- safe and economical water treatment agents.

**Rossari has a Joint Venture Buzil Rossari Pvt Ltd (with Buzil WERK Wagner GmbH & Co KG) in the Cleaning and Hygiene Solutions space. Buzil has a long tradition of developing, manufacturing and delivering first-class solutions for almost any application.**

**THE HPCC segment has 3 subdivisions:**

- Ingredients and Performance chemicals (60-70% of the segment)
- ODM with Private Labels (originally designed and manufactured products by Rossari Biotech) (20-30% of the segment)
- Contract Manufacturing (about 10%)

**The company also has a personal care vertical, which consisted of hand sanitizers, hand wash, etc., which is now expanded to cater to Beauty Care products (body care, hair care, etc) through its subsidiary Rossari Personal Care Products Pvt Ltd**

### Textile Specialty Chemicals

This is the core business of Rossari. The Textile specialty chemicals work on the 4 pillars of chemistry - surfactants, acrylic chemistry, enzymes and silicone. Rossari has focused on these 4 chemistries for diversification. The company is backed by a robust technical service team across the industry. The focus is to make tailor made and customized products to enhance the product value for the customers. There are about 109 textile distributors associated with Rossari.

Last year, Rossari became the No. 1 Company in India in textile specialty chemicals beating large Multinationals. The company has a Green Product series to promote sustainability where the harsh chemicals used in the textile industry are replaced with products which are non-polluting, zero Chemical Oxygen Demand (COD), etc. This has been recognized by the giants of the textile industry and Rossari has also received many accolades for the same. Notable is the fact that Arvind Ltd, one of the major players, has chosen Rossari as its Innovation Partner a couple of years ago.

This segment has consistently grown by 10-25% in the last 6-7 years. During the time of Covid, the company has launched a full range of anti-microbials and anti-viral products.

### Animal Health and Nutrition Products

Rossari supplies

- poultry feed supplements and additives,
- pet grooming and pet treats, including for weaning, infants and adult pets

and currently manufacture over 100 products for its 150 customers in this category.

Rossari forayed into the pet grooming sub-category, pursuant to the acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in 2019.

While almost all of its products are manufactured in-house, the distribution is primary B2B. However, the pet grooming and pet treat products follow the B2C model. There are 36 distributors for this segment.

### Capacity Expansion

Rossari's Silvasa plant is operating at 94% (installed capacity of 120,000 MTPA) and hence, the company has gone in for an expansion at Dahej. The 132,500 MTPA is nearing completion and should be operational by August 2020.

The added capacity is expected to be fully utilized over the next 3-4 years. This plant will provide economies of scale and logistical advantage due proximity to the deep-water, multi cargo port of Dahej.

## Investment Highlights:

### Capacity Expansion:

On account of the increasing demand, the company had reached 94% capacity utilization in FY19. Now with the addition of the Dahej plant, there will be no major capex in the next 3-4 years, thus allowing the management to focus on meeting the increasing demands and launching new products. The additional capacity will help in achieving the growth targets of the company.

### Qualified and experienced employees and proven Management team:

Mr Sunil Chari and Mr Edward Menezes, the promoters, are both trained textile technologists and hold the textile segment close to their hearts and have grown this business with great passion. They lead a strong team built by them with 80+ years of experience cumulatively.

The team commits substantial effort, funds and other resources towards the R&D activities and there is a dedicated R&D centre at its Silvassa Manufacturing Facility and another one in Mumbai. The Company has spent Rs 8.5 crore, Rs 6.8 crore and Rs 9.8 towards R&D activities during FY2018, FY2019 and FY2020, respectively.

### Fund Utilization:

The Funds are going to be utilized to repay the debt of around Rs 65 crore, fund working capital requirements of Rs 50 crore and for general corporate purposes. This will make the company debt free and provide liquidity.

Particulars	Total estimated amount / expenditure
Repayment / prepayment of certain indebtedness availed (including accrued interest)	65
Funding working capital requirements	50
General corporate purposes	Balancing

### Strong Demand for existing product line:

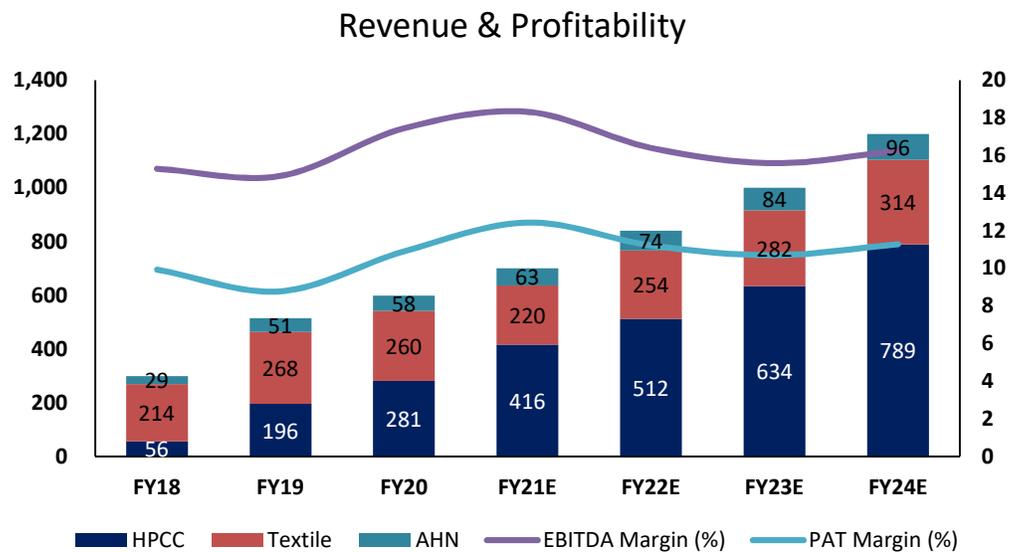
Despite the lockdown and the pandemic, the company has not suffered any major losses in the revenue in the last 4 months. The company has added 20+ Private Label customers during lockdown. The soaps & detergent and pulp & paper products have gained a lot traction during the lockdown

### EBITDA and PAT:

The EBITDA margin expanded by 710 bps from 10.4% in FY17 to 17.5% FY20. In absolute terms, the EBITDA has grown from Rs 24.3 crore in FY17 to Rs 104.7 crore in FY20.

Similarly, PAT Margins have grown 420 bps from 6.7% in FY17 to 10.9% in FY20. In absolute terms, the PAT has grown from Rs 15.7 crore in FY17 to Rs 65.5 crore in FY20.

### Revenue & Profitability

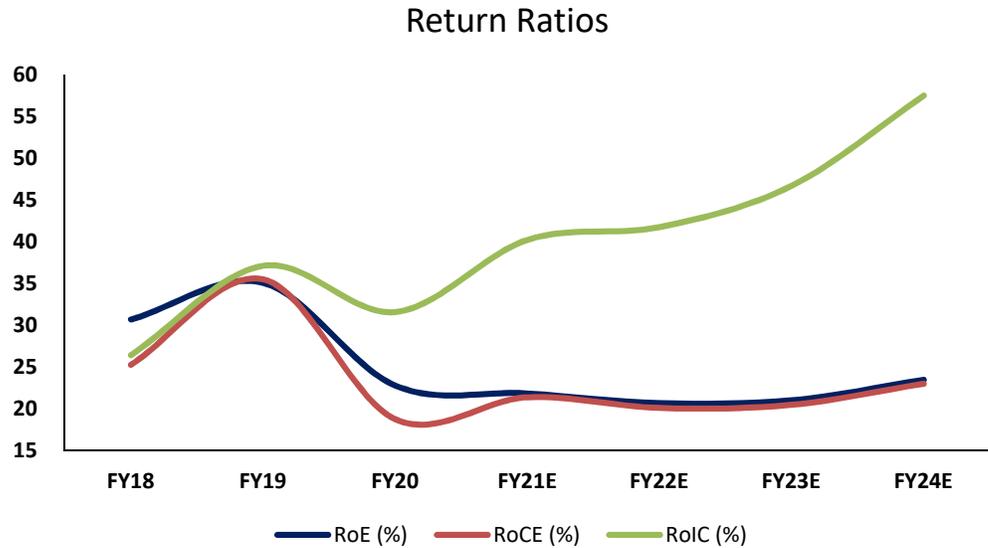


Source: Company, Ventura Securities

### Return Ratios:

The RoE has increased from 7.9% in FY15 to 22.8% in FY20, registering a growth of 1490 bps. Similarly, the RoCE has increased from 8.7% in FY15 to 18.8% in FY20, at a growth of 1010 bps.

The company has a high RoIC of 31.6% in FY20 compared to 8.8% in FY15 due to the flexible assets that can be used for multiple purposes.

**Return Ratios**


Source: Company, Ventura Securities

**Issue Structure & Valuation**

The proposed Rossari issue size is of Rs. 494 cr – Rs 496 cr. An aggregate of up to 1,16,76,470 equity shares (11,76,470 equity shares by way of Fresh Issue and 1,05,00,000 by way of Offer for Sale by existing shareholders) is being offered, which will constitute 42.70% of the post offer paid-up equity share capital. The price band for the issue is Rs. 423 per share (lower price band) to Rs 425 per share (upper price band), and the bid lot is 35 shares and multiples thereof. There is an eligible employee discount of Rs 97 per share and the per share Face Value is Rs 2.

**We recommend a SUBSCRIBE.**

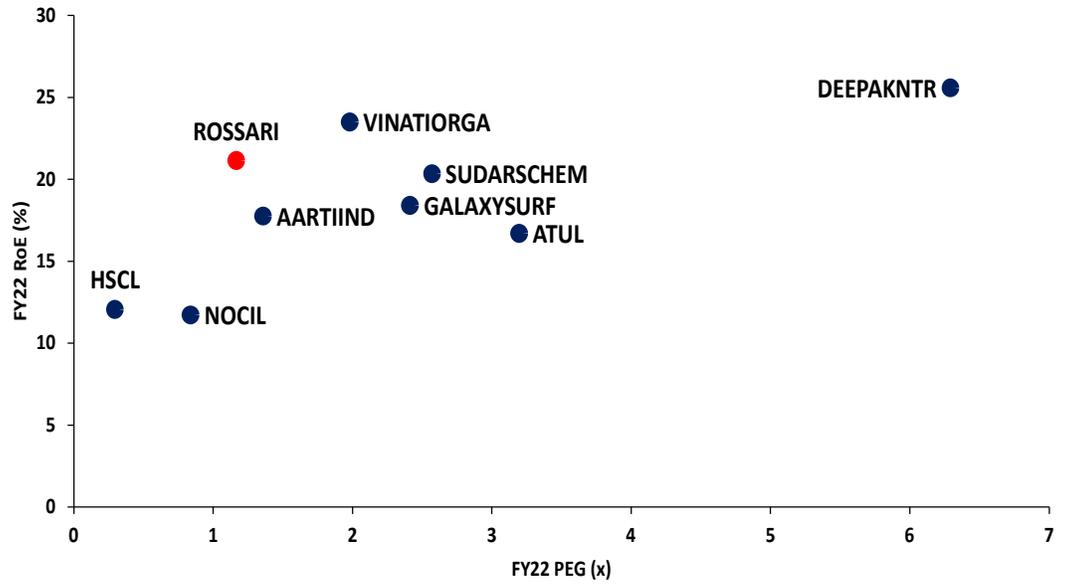
**SWOT ANALYSIS:**

<p><b>STRENGTH</b></p> <ul style="list-style-type: none"> <li>➤ Pan-India distribution network</li> <li>➤ Robust technical and R&amp;D Team</li> <li>➤ India’s No. 1 largest textile specialty chemical company</li> <li>➤ Flexible Manufacturing capabilities for powders, granules and liquid.</li> <li>➤ Led by promoters with 80+ years of experience cumulatively</li> </ul>	<p><b>WEAKNESS</b></p> <ul style="list-style-type: none"> <li>➤ No long term agreement with the raw material suppliers.</li> </ul>
<p><b>OPPORTUNITY</b></p> <ul style="list-style-type: none"> <li>➤ Capacity expansion to meet the increasing demands</li> <li>➤ Fast launches of new customizable and sustainable products</li> <li>➤ Pent up demand due to the lockdown</li> </ul>	<p><b>THREAT</b></p> <ul style="list-style-type: none"> <li>➤ Heavy reliance on a limited number of customers</li> <li>➤ Exposure of workforce to potentially dangerous circumstances, with highly toxic, flammable and explosive chemicals</li> </ul>

**Peer Comparison on Financial Parameters**

Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
<b>Rossari Biotech Ltd Ltd.</b>												
FY18	292	45	29	15.3	9.9	5.6	18.2	30.7	26.4	76.1	23.4	49.8
FY19	516	77	45	14.9	8.8	8.7	24.9	35.1	37.1	48.7	17.1	28.6
FY20	600	105	65	17.5	10.9	12.6	55.2	22.8	31.6	33.7	7.7	20.3
FY21	680	112	75	16.5	11.1	14.5	75.0	19.3	35.1	29.3	5.7	18.0
FY22	840	138	94	16.4	11.2	18.2	85.9	21.1	41.8	23.4	4.9	14.4
<b>Sudarshan Chemical Industries Ltd. (CMP: Rs.392 Mkt Cap: Rs.2714 cr)</b>												
FY18	1,306	187	85	14.3	6.5	12.2	63.6	19.3	15.0	32.0	6.2	16.8
FY19	1,453	211	135	14.5	9.3	19.5	82.0	23.8	15.7	20.1	4.8	14.6
FY20	1,681	246	145	14.7	8.6	20.9	86.8	24.1	16.6	18.8	4.5	12.8
FY21	1,737	256	93	14.7	5.3	13.4	99.5	13.5	16.0	29.2	3.9	12.5
FY22	2,069	337	139	16.3	6.7	20.1	116.4	17.2	19.4	19.5	3.4	9.5
<b>Aarti Industries Ltd. (CMP: Rs.927.9 Mkt Cap: Rs.16167 cr)</b>												
FY18	3,759	691	333	18.4	8.9	19.1	97.1	19.7	14.5	48.6	9.6	26.4
FY19	4,659	963	492	20.7	10.6	28.2	151.8	18.6	16.9	32.9	6.1	19.0
FY20	4,186	977	536	23.3	12.8	30.8	171.0	18.0	17.4	30.2	5.4	18.1
FY21	4,534	1,057	549	23.3	12.1	31.5	198.6	15.9	15.4	29.4	4.7	17.1
FY22	5,459	1,334	725	24.4	13.3	41.6	234.8	17.7	18.2	22.3	4.0	13.5
<b>Atul Ltd. (CMP: Rs.4587 Mkt Cap: Rs.13606 cr)</b>												
FY18	3,240	505	276	15.6	8.5	93.2	756.5	12.3	17.9	49.2	6.1	26.9
FY19	4,038	767	436	19.0	10.8	147.0	912.2	16.1	26.0	31.2	5.0	17.5
FY20	4,093	902	666	22.0	16.3	224.7	1,063.7	21.1	30.1	20.4	4.3	14.4
FY21	4,033	876	584	21.7	14.5	196.9	1,265.7	15.6	23.7	23.3	3.6	15.0
FY22	4,825	1,102	745	22.8	15.4	251.3	1,503.4	16.7	24.4	18.3	3.1	11.9
<b>Galaxy Surfactants Ltd. (CMP: Rs.1609.1 Mkt Cap: Rs.5705 cr)</b>												
FY18	2,413	288	158	11.9	6.5	44.6	202.7	22.0	23.0	36.1	7.9	20.9
FY19	2,732	353	191	12.9	7.0	53.9	247.3	21.8	27.3	29.9	6.5	16.8
FY20	2,596	369	230	14.2	8.9	65.0	301.2	21.6	22.7	24.8	5.3	16.2
FY21	2,744	358	212	13.0	7.7	59.7	351.6	17.0	23.8	26.9	4.6	16.7
FY22	3,155	442	272	14.0	8.6	76.7	417.0	18.4	24.9	21.0	3.9	13.5
<b>Deepak Nitrite Ltd. (CMP: Rs.516.1 Mkt Cap: Rs.7039 cr)</b>												
FY18	1,611	196	79	12.2	4.9	5.8	67.6	8.6	7.8	89.1	7.6	40.5
FY19	2,675	414	174	15.5	6.5	12.7	78.6	16.2	15.0	40.5	6.6	19.8
FY20	4,230	1,026	611	24.3	14.4	44.8	115.2	38.9	34.3	11.5	4.5	7.8
FY21	3,940	938	535	23.8	13.6	39.2	146.2	26.8	28.1	13.2	3.5	8.2
FY22	4,507	1,057	623	23.4	13.8	45.6	181.4	25.2	29.4	11.3	2.8	7.0
<b>Vinati Organics Ltd. (CMP: Rs.1009.9 Mkt Cap: Rs.10379 cr)</b>												
FY18	729	199	144	27.4	19.7	14.0	77.5	18.1	25.8	72.1	13.0	51.5
FY19	1,108	404	282	36.4	25.5	27.5	102.3	26.9	39.4	36.7	9.9	25.5
FY20	1,029	414	334	40.2	32.4	32.5	124.5	26.1	38.1	31.1	8.1	24.4
FY21	1,153	415	294	36.0	25.5	28.6	147.5	19.4	39.3	35.3	6.8	24.9
FY22	1,547	570	411	36.9	26.6	40.0	170.5	23.5	40.5	25.2	5.9	18.1
<b>Himadri Speciality Chemical Ltd. (CMP: Rs.48.9 Mkt Cap: Rs.2048 cr)</b>												
FY18	2,021	452	247	22.4	12.2	5.9	33.8	17.5	21.2	8.3	1.4	5.8
FY19	2,422	560	324	23.1	13.4	7.7	39.0	19.9	26.1	6.3	1.3	4.3
FY20	1,930	354	183	18.4	9.5	4.4	43.1	10.1	27.4	11.2	1.1	6.9
FY21	2,100	414	206	19.7	9.8	4.9	49.1	10.0	28.7	9.9	1.0	5.9
FY22	2,590	532	309	20.5	11.9	7.4	56.4	13.1	30.0	6.6	0.9	4.6
<b>Nocil Ltd. (CMP: Rs.92.3 Mkt Cap: Rs.1529 cr)</b>												
FY18	977	265	170	27.2	17.4	10.3	63.6	16.1	30.1	9.0	1.5	4.8
FY19	1,030	293	185	28.4	17.9	11.2	70.3	15.9	26.2	8.3	1.3	4.7
FY20	846	178	131	21.1	15.4	7.9	71.6	11.0	12.7	11.7	1.3	8.3
FY21	897	186	117	20.7	13.1	7.1	77.3	9.2	13.6	13.0	1.2	8.0
FY22	1,124	244	161	21.7	14.3	9.7	83.4	11.7	14.6	9.5	1.1	6.1

Peer Comparison



**Financials & Projections**

Figures are in Rs. Cr	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Profit &amp; loss Statement</b>							
Net Sales	291.8	516.2	600.1	700.0	840.0	1,000.0	1,200.0
Growth (%)	25.0	76.9	16.2	16.6	20.0	19.0	20.0
Total Expenditure	247.1	439.2	495.4	571.7	702.2	844.0	1,004.8
Growth (%)	18.2	77.7	12.8	15.4	22.8	20.2	19.1
EBITDA	44.7	77.0	104.7	128.3	137.8	156.0	195.2
Growth (%)	83.8	72.5	36.0	22.5	7.4	13.2	25.1
EBITDA Margin (%)	15.3	14.9	17.5	18.3	16.4	15.6	16.3
Depreciation	5.2	12.2	16.9	14.3	15.4	16.6	17.7
Depreciation to Net Block (%)	11.5	14.7	18.0	16.0	18.4	21.5	25.5
EBIT	39.5	64.8	87.9	114.0	122.4	139.4	177.5
Growth (%)	96.5	64.2	35.5	29.7	7.4	13.9	27.3
EBIT Margin (%)	13.5	12.6	14.6	16.3	14.6	13.9	14.8
Other Income	1.4	0.9	3.7	3.7	3.7	3.7	3.7
Financial Charges	1.4	3.6	3.6	1.2	0.0	0.0	0.0
PBT	39.5	62.2	88.1	116.5	126.1	143.2	181.2
Growth (%)	109.2	57.2	41.6	32.3	8.2	13.5	26.6
PBT Margin (%)	13.6	12.0	14.7	16.6	15.0	14.3	15.1
Tax Provision	10.5	16.8	22.6	29.4	31.8	36.1	45.7
Tax Rate (%)	26.6	27.1	25.7	25.2	25.2	25.2	25.2
PAT / Net Profit	29.0	45.4	65.5	87.2	94.3	107.1	135.5
Growth (%)	84.8	56.3	44.4	33.1	8.2	13.5	26.6
Net Profit Margin (%)	9.9	8.8	10.9	12.5	11.2	10.7	11.3
<b>Balance Sheet</b>							
Share Capital	4.4	4.4	10.2	10.4	10.4	10.4	10.4
Reserves & Surplus	90.0	124.7	276.5	387.5	444.2	497.7	565.5
Total Shareholders Fund	94.4	129.1	286.7	397.9	454.5	508.1	575.8
Total Long Term Debt	1.3	0.7	34.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	2.3	2.5	2.1	2.1	2.1	2.1	2.1
Total Current Liabilities	67.6	118.8	148.7	120.5	142.0	167.1	198.9
Total Liabilities	166	251	471	521	599	677	777
Gross Block	87.6	137.6	122.4	132.4	142.4	152.4	162.4
Less: Accumulated Depreciation	42.6	54.7	28.9	43.2	58.6	75.2	92.9
Net Block	45.0	82.9	93.5	89.2	83.8	77.2	69.5
Capital Work in Progress	10.0	2.8	21.8	0.0	0.0	0.0	0.0
Other Non Current Assets	5.1	3.9	29.9	29.9	29.9	29.9	29.9
Total Current Assets	105.5	161.5	326.3	401.3	484.8	570.0	677.3
Total Assets	166	251	471	520	598	677	777

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
<b>Per Share Data (Rs.)</b>							
Adjusted EPS	5.6	8.7	12.6	16.8	18.2	20.6	26.1
Adjusted Cash EPS	3.3	5.5	7.9	9.8	10.6	11.9	14.8
Free Cash Flow Per Share	0.9	6.7	-2.4	11.3	16.2	19.3	24.1
Cash Yield (%)	449.8	63.5	-173.6	37.7	26.2	22.0	17.6
Dividend Payout Ratio (%)	0.0	23.4	4.0	30.0	40.0	50.0	50.0
Adjusted Book Value per Share	18.2	24.9	55.2	76.6	87.5	97.8	110.9
<b>Capital, Liquidity &amp; Return Ratios</b>							
Total Debt to Equity (x)	0.2	0.0	0.2	0.0	0.0	0.0	0.0
Current Ratio (x)	0.6	0.7	0.5	0.3	0.3	0.3	0.3
Return on Equity (%)	30.7	35.1	22.8	21.9	20.8	21.1	23.5
Return on Capital Employed (%)	25.3	35.5	18.8	21.4	20.1	20.5	23.1
Return on Invested Capital (%)	26.4	37.1	31.6	40.2	41.8	46.7	57.5
<b>Valuation Ratios</b>							
P/E	76.1	48.7	33.7	25.3	23.4	20.6	16.3
P/CEPS	129.2	76.7	53.6	43.5	40.2	35.7	28.8
P/B	23.4	17.1	7.7	5.5	4.9	4.3	3.8
<b>Efficiency Ratios</b>							
Trade Payables Days	50.5	74.1	59.0	50.0	51.0	52.0	53.0
Trade Receivable Days	74.8	61.0	57.3	60.0	59.0	57.0	56.0
Inventory Days	43.9	38.8	35.4	35.0	35.0	35.0	35.0
Net Working Capital Days	68.2	25.7	33.6	45.0	43.0	40.0	38.0
<b>Cash Flow Statement (Rs. Cr)</b>							
Profit Before Tax	39.5	62.2	88.1	116.5	126.1	143.2	181.2
Depreciation	5.2	12.2	16.9	14.3	15.4	16.6	17.7
Adjustments	14.4	18.1	-24.4	15.5	15.4	16.6	17.7
Cash Flow from Operations	30.1	74.5	72.4	71.7	97.1	113.0	137.9
Capital Expenditure	-15.9	-35.7	-101.9	11.8	-10.0	-10.0	-10.0
Other Investment Activities	-12.5	-3.5	0.2	0.0	0.0	0.0	0.0
Cash Flow from Investing	-28.5	-39.2	-101.7	11.8	-10.0	-10.0	-10.0
Changes in Equity	0.0	0.0	100.0	50.0	0.0	0.0	0.0
Changes in Borrowings	-1.8	-16.2	57.1	-61.0	0.0	0.0	0.0
Dividends & DDT	0.0	-10.6	-2.6	-26.1	-37.7	-53.5	-67.8
Cash Flow from Financing	-3.2	-30.4	150.9	-38.4	-37.7	-53.5	-67.8
Net Cash Flow	-1.6	5.0	121.5	45.0	49.4	49.5	60.1
Opening Cash Balance	2.3	0.8	5.7	127.2	172.3	221.7	271.1
Closing Cash Balance	0.8	5.7	127.2	172.3	221.7	271.1	331.3

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**Ventura Securities Limited**

Corporate Office: 8<sup>th</sup> Floor, 'B' Wing, I Think Techno Campus, Pokhran Road No. 02, Off Eastern Express Highway, Thane (West), 400 607

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