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Q1FY22 result review
and reco change

Specialty Chemicals

Target price: Rs1,270

Earnings revision

(%)	FY22E	FY23E
Revenue	↑ 4.8	↑ 4.7
EBITDA	↓ 2.6	↓ 2.6
PAT	↑ 1.6	↓ 0.8

Target price revision

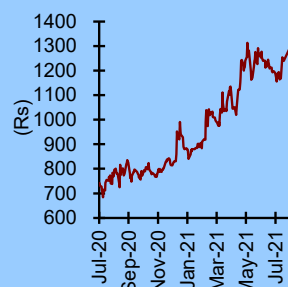
Rs1,270 from Rs1,090

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	72.7	68.7	68.7
Institutional investors	20.0	21.9	21.4
MFs and others	11.3	11.6	11.4
Banks /FIs	0.0	0.0	0.0
Insurance Cos.	0.9	0.9	0.9
FIs	7.8	9.4	9.1
Others	7.3	9.4	9.9

Source: BSE

Price chart



INDIA

Rossari Biotech

HOLD

Upgrade from Reduce

Value extraction from inorganic growth key

Rs1,289

Rossari Biotech's Q1FY22 EBITDA growth of 56% YoY to Rs371mn came tad below our estimates due to raw material price volatility. Rossari remains confident of navigating through margin pressure, and reiterated EBITDA margin guidance of 16-18%. Rossari clarified it is not looking for more acquisitions and will focus on integrating the three recently acquired companies. It remains confident of multiple synergetic benefits from the availability of products in downstream, cross-selling solutions among customers of three companies, building solutions business for Tristar and Romakk, and integrated knowledge development. We have marginally tweaked our previous estimates. We change our valuation from DCF to PE and assign multiple of 40x FY23E merged entity EPS (pro-forma financial [link](#)), accordingly, our target price increases to Rs1,270 (from Rs1,090); we upgrade our rating to HOLD (from Reduce). Upside risk can be from material synergetic benefits from acquisitions which we have not factored in our estimates.

- **HPPC / AHN remains strong, while textile chemicals impacted.** Home personal care and performance chemicals (HPPC) segment continued to grow strong at 22% QoQ (58% YoY) to Rs1.3bn. Company has seen good traction in new products' performance such as chemicals in paints, ceramics, water treatment etc. AHN has also performed well with 10.6% QoQ growth (177% YoY) to Rs241mn, while textile chemicals dipped 15% QoQ (up 331% YoY) to Rs747mn. It is a seasonally weak quarter for textiles as in Q4 sales push is high to meet targets. Rossari believes it should at least achieve revenue of Rs2.8-3bn in textiles chemicals in FY22.
- **EBITDA margin saved by lower expenses; gross profit margin under pressure.** Rossari's revenue grew 5.9% QoQ / 111% YoY, and benefited from commissioning of Dahej plant and price hike on RM inflation. Gross profit margin dipped 10bps QoQ to 30.9%, while it was down 10.9pps on benefit of higher realisation on sanitizers, which was unsustainable. EBITDA grew 5.4% QoQ / 56% YoY to Rs371mn. Though gross profit margins were impacted, it managed to hold on to EBITDA margin at 16.1%, within its guidance range of 16-18%. It sees gross margin normalise as RM price stabilise, while EBITDA guidance maintained as it sees operating cost inflation with resumption in travel and other activities. Net profit grew 9.4% QoQ / 58% YoY to Rs245mn.
- **Inorganic growth – to add value in medium term.** Rossari has announced third investment in Romakk Chemicals, in which it plans to buy 50% stake for Rs75mn. Romakk manufactures silicone oil and upstream emulsions, which are used in personal care. Rossari's presence in silicone was significantly skewed towards textiles thus, Romakk would enhance its portfolio. Rossari's initial focus is on successful integration of people and culture of the three acquired companies. Over the next few quarters, it will help these companies scale-up faster and extract synergetic benefits. It sees huge scope in cross-selling and imparting solutions mind-set.

Market Cap	Rs71bn/US\$954mn
Bloomberg	ROSSARI IN
Shares Outstanding (mn)	55.1
52-week Range (Rs)	1313/712
Free Float (%)	31.3
FII (%)	9.1
Daily Volume (US\$'000)	3,512
Absolute Return 3m (%)	3.7
Absolute Return 12m (%)	80.3
Sensex Return 3m (%)	9.2
Sensex Return 12m (%)	42.4

Year to Mar	FY20	FY21P	FY22E	FY23E
Revenue (Rs bn)	6.0	7.1	9.6	11.4
Rec. Net Income (Rs bn)	0.7	0.8	1.1	1.3
EPS (Rs)	12.9	14.6	19.7	24.0
% Chg YoY	(37.9)	13.3	34.9	21.9
P/E (x)	99.2	87.5	64.9	53.2
CEPS (Rs)	16.2	18.8	25.1	30.3
EV/E (x)	61.3	53.5	39.3	32.1
Dividend Yield (%)	0.0	0.0	0.3	0.5
RoCE (%)	27.1	14.1	13.5	14.8
RoE (%)	31.9	16.0	14.3	15.5

Please refer to important disclosure at the end of this report

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Table 1: Rossari Biotech (consolidated) financials

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	1,095	1,717	2,100	2,182	2,311	5.9	111.1
COGS	638	1,080	1,398	1,506	1,598	6.1	150.6
Gross profit	457	636	702	676	713	5.5	56.1
<i>GPM (%)</i>	<i>41.8</i>	<i>37.1</i>	<i>33.4</i>	<i>31.0</i>	<i>30.9</i>		
Employee cost	74	122	109	116	116	(0.1)	57.4
<i>% of revenue</i>	<i>6.7</i>	<i>7.1</i>	<i>5.2</i>	<i>5.3</i>	<i>5.0</i>		
Other expenses	146	214	253	208	226	8.8	54.9
<i>% of revenue</i>	<i>13.4</i>	<i>12.5</i>	<i>12.0</i>	<i>9.5</i>	<i>9.8</i>		
Total expenses	220	336	362	324	342	5.6	55.8
EBITDA	237	301	340	352	371	5.4	56.3
<i>EBITDA (%)</i>	<i>21.7</i>	<i>17.5</i>	<i>16.2</i>	<i>16.1</i>	<i>16.1</i>		
Depreciation	38	56	61	74	63	(14.4)	65.2
EBIT	199	245	280	278	308	10.7	54.6
Other income	16	40	8	29	31	6.5	92.1
Finance cost	11	7	4	8	6		
PBT	204	278	284	299	332	11.1	63.1
Tax	53	71	68	77	87	12.9	64.8
<i>ETR (%)</i>	<i>25.9</i>	<i>25.4</i>	<i>23.8</i>	<i>25.8</i>	<i>26.2</i>		
Minority interest	(4)	(0)	-	(2)	0		
Net profit	155	207	216	224	245	9.4	58.3
<i>Net profit (%)</i>	<i>14.2</i>	<i>12.1</i>	<i>10.3</i>	<i>10.3</i>	<i>10.6</i>		
EPS (Rs)	2.8	3.8	3.9	4.1	4.5	9.4	58.3

Source: Company data, I-Sec research

Table 2: Rossari Biotech segmental revenue breakup

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Segment revenue							
HPPC	835	877	1,196	1,085	1,323	21.9	58.4
Textile chemicals	173	683	782	879	747	(15.0)	331.8
Animal health & nutrition	87	156	122	218	241	10.6	177.0
Total	1,095	1,716	2,100	2,182	2,311	5.9	111.1
Mix (%)							
HPPC	76.3	51.1	57.0	49.7	57.2		
Textile chemicals	15.8	39.8	37.2	40.3	32.3		
Animal health & nutrition	7.9	9.1	5.8	10.0	10.4		

Source: Company data, I-Sec research

Table 3: Rossari Biotech (standalone) financials

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	1,095	1,737	2,058	2,015	2,039	1.2	86.3
COGS	638	1,103	1,397	1,379	1,437	4.2	125.4
Gross profit	457	634	661	636	603	(5.3)	31.8
<i>GPM (%)</i>	<i>41.8</i>	<i>36.5</i>	<i>32.1</i>	<i>31.6</i>	<i>29.6</i>		
Employee cost	72	112	88	95	95	0.3	32.7
<i>% of revenue</i>	<i>6.5</i>	<i>6.5</i>	<i>4.3</i>	<i>4.7</i>	<i>4.7</i>		
Other expenses	146	221	249	197	204	3.4	40.0
<i>% of revenue</i>	<i>13.3</i>	<i>12.7</i>	<i>12.1</i>	<i>9.8</i>	<i>10.0</i>		
Total expenses	217	333	337	292	299	2.4	37.6
EBITDA	240	300	324	344	304	(11.8)	26.6
<i>EBITDA (%)</i>	<i>21.9</i>	<i>17.3</i>	<i>15.8</i>	<i>17.1</i>	<i>14.9</i>		
Depreciation	38	55	59	69	60	(13.1)	57.6
EBIT	202	246	265	275	243	(11.4)	20.7
Other income	16	50	11	25	33		
Finance cost	11	7	4	8	6		
PBT	206	289	273	292	270	(7.6)	31.0
Tax	53	71	66	78	71	(9.5)	32.7
<i>ETR (%)</i>	<i>25.9</i>	<i>24.6</i>	<i>24.4</i>	<i>26.8</i>	<i>26.2</i>		
Net profit	153	218	206	214	199	(6.9)	30.4
<i>Net profit (%)</i>	<i>14.0</i>	<i>12.5</i>	<i>10.0</i>	<i>10.6</i>	<i>9.8</i>		

Source: Company data, I-Sec research

Table 4: Rossari Biotech (consolidated minus standalone) financials

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue	-	(20)	42	167	272
COGS	-	(23)	1	127	161
Gross profit	-	3	41	40	111
<i>GPM (%)</i>					
Employee cost	2	9	20	21	21
<i>% of revenue</i>					
Other expenses	0	(7)	4	11	22
<i>% of revenue</i>					
Total expenses	2	2	25	32	43
EBITDA	(2)	0	16	8	68
<i>EBITDA (%)</i>					
Depreciation	-	1	2	5	3
EBIT	(2)	(1)	14	3	65
Other income	0	(10)	(3)	3	(2)
Finance cost	-	-	-	-	0
PBT	(2)	(11)	11	7	63
Tax	(1)	(0)	1	(1)	16
<i>ETR (%)</i>	25.1	3.6	10.1	(17.0)	25.9
Net profit	(2)	(11)	10	8	46
<i>Net profit (%)</i>		53.0	23.1	4.8	17.1

Source: Company data, I-Sec research

Table 5: Earnings revision

Rs mn	Revised		Earlier		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	9,581	11,445	9,144	10,928	4.8	4.7
EBITDA	1,664	2,019	1,708	2,073	(2.6)	(2.6)
EBITDA (%)	17.4	17.6	18.7	19.0		
PAT	1,082	1,320	1,066	1,330	1.6	(0.8)
EPS (Rs)	19.7	24.0	20.5	25.6	(4.0)	(6.2)

Source: Company data, I-Sec research

Table 6: Scenario - 1: Rossari + Unitop merged financial

Rs mn	Rossari Biotech			Unitop			Rossari + Unitop		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	9,581	11,445	12,914	3,450	3,864	4,328	13,031	15,309	17,242
<i>Growth (%)</i>	35.1	19.5	12.8	15.0	12.0	12.0	29.1	17.5	12.6
Gross profit	3,194	3,805	4,280	912	1,022	1,144	4,107	4,826	5,425
<i>GPM (%)</i>	33.3	33.2	33.1	26.4	26.4	26.4	31.5	31.5	31.5
EBITDA	1,664	2,019	2,316	528	609	705	2,192	2,628	3,020
<i>Growth (%)</i>	35.2	21.3	14.7	17.3	15.4	15.6	30.4	19.9	14.9
<i>EBITDA (%)</i>	17.4	17.6	17.9	15.3	15.8	16.3	16.8	17.2	17.5
EBIT	1,367	1,677	1,920	428	507	600	1,795	2,184	2,520
PAT	1,082	1,320	1,505	319	378	448	1,401	1,698	1,953
<i>Growth (%)</i>	34.9	21.9	14.0	(2.7)	18.6	18.4	24.0	21.2	15.0
Gross block	2,106	2,456	2,823	1,450	1,550	1,650	3,556	4,006	4,473
Asset turn (x)	4.5	4.7	4.6	2.4	2.5	2.6	3.7	3.8	3.9
Invested capital	3,200	3,624	3,954	4,210	4,210	4,210	7,410	7,834	8,164
pre-tax ROIC (%)	42.7	46.3	48.6	10.2	12.0	14.3	24.2	27.9	30.9

Source: Company data, I-Sec research

Table 7: Scenario - 2: Rossari P/E multiple on post-merger EPS works to 36.7x FY23 and 30.6x FY24

Rs mn	FY22E	FY23E	FY24E
Tristar			
Revenue	1,271	1,461	1,681
Growth (%)	15.0	15.0	15.0
PAT	120	138	158
Growth (%)	15.0	15.0	15.0
Attributable net profit Rossari shareholders			
Net profit			
Rossari (...a)	1,082	1,320	1,505
Unitop	319	378	448
Attributable equity stake (%)	65.0	82.5	100.0
Attributable net profit (...b)	207	312	448
Tristar	120	138	158
Attributable equity stake (%)	76.0	84.0	92.0
Attributable net profit (...c)	91	116	146
Net profit (...a+b+c)	1,380	1,747	2,098
Shares (mn)	55	55	55
EPS (Rs)	25.1	31.8	38.2

Source: Company data, I-Sec research

Financial summary

Table 8: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Income (Sales)	6,001	7,093	9,581	11,445
Gross profit	2,284	2,472	3,194	3,805
Gross profit margin (%)	38.1	34.8	33.3	33.2
Operating Expenses	1,236	1,241	1,530	1,786
EBITDA	1,047	1,231	1,664	2,019
% margins	17.5	17.3	17.4	17.6
Depreciation & Amortisation	169	228	297	342
Net Interest	36	30	-	-
Other Income	37	92	80	88
Recurring PBT	881	1,064	1,447	1,765
Add: Extraordinaries	-	-	-	-
Less: Taxes	226	268	365	445
- Current tax				
- Deferred tax				
Net Income (Reported)	655	803	1,082	1,320
Recurring Net Income	655	803	1,082	1,320

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	3,424	6,958	8,357	9,704
of which cash & cash eqv.	1,272	4,263	4,665	5,231
Total Current Liabilities & Provisions	1,174	1,387	1,874	2,238
Net Current Assets	2,251	5,570	6,483	7,465
Investments	137	137	137	137
of which				
Strategic/Group	-	-	-	-
Other Marketable	137	137	137	137
Net Fixed Assets	1,153	1,434	1,387	1,395
Goodwill				
Total Assets	3,541	7,142	8,008	8,998
Liabilities				
Borrowings	669	-	-	-
Deferred tax liability	5	5	5	5
Other financial liabilities				
Equity Share Capital	102	110	110	110
Face Value per share (Rs)	2.0	2.0	2.0	2.0
Reserves & Surplus	2,765	7,027	7,893	8,883
Net Worth	2,867	7,137	8,003	8,993
Total Liabilities	3,541	7,142	8,008	8,998

Source: Company data, I-Sec research

Table 10: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	1,717	2,100	2,182	2,311
% growth (YoY)	14.2	29.3	36.8	111.1
EBITDA	301	340	352	371
Margin (%)	17.5	16.2	16.1	16.1
Other income	40	8	29	31
Add: Extra ordinaries	-	-	-	-
Net profit	207	216	224	245

Source: Company data

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cash flow	859	964	1,300	1,574
Working Capital Changes	(311)	(329)	(511)	(417)
Capital Commitments	(760)	(509)	(250)	(350)
Free Cash Flow	(211)	126	539	808
Cash flow from Investing Activities	(1,143)	92	80	88
Issue of Share Capital	1,000	3,500	-	-
Inc (Dec) in Borrowings	629	(669)	-	-
Dividend paid & Others	(59)	(57)	(216)	(330)
Chg. in Cash & Bank balance	215	2,991	402	566

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
Recurring EPS	12.9	14.6	19.7	24.0
Reported EPS	12.9	14.6	19.7	24.0
Recurring Cash EPS	16.2	18.8	25.1	30.3
Dividend per share (DPS)	0.4	0.5	3.9	6.0
Book Value per share (BV)	56.5	129.9	145.7	163.7
Growth Ratios (%)				
Operating Income	16.2	18.2	35.1	19.5
EBITDA	34.9	17.5	35.2	21.3
Recurring Net Income	43.3	22.6	34.9	21.9
Diluted Recurring EPS	-37.9	13.3	34.9	21.9
Diluted Recurring CEPS	-38.4	15.7	33.8	20.5
Valuation Ratios (x)				
P/E	99.2	87.5	64.9	53.2
P/CEPS	78.9	68.2	50.9	42.3
P/BV	22.6	9.8	8.8	7.8
EV / EBITDA	61.3	53.5	39.3	32.1
EV / Operating Income	10.7	9.3	6.8	5.7
EV / Operating FCF	-47.4	302.5	105.8	72.5
Operating Ratio				
Other Income / PBT (%)	4.2	8.6	5.5	5.0
Effective Tax Rate (%)	25.7	25.2	25.2	25.2
NWC / Total Assets (%)	27.6	18.3	22.7	24.8
Inventory Turnover (days)	35.4	40.4	41.4	42.4
Receivables (days)	57.3	60.0	61.0	62.0
Payables (days)	59.0	59.0	59.0	59.0
Net Debt/EBITDA Ratio (x)	(0.7)	(3.6)	(2.9)	(2.7)
Capex % of sales	12.7	7.2	2.6	3.1

Return/Profitability Ratio (%)

Recurring Net Income				
Margins	10.9	11.3	11.3	11.5
RoCE -post tax	27.1	14.1	13.5	14.8
RoIC	39.0	30.8	34.5	36.8
RoNW	31.9	16.0	14.3	15.5
Dividend Yield	0.0	0.0	0.3	0.5
Gross Margins	38.1	34.8	33.3	33.2
EBITDA Margins	17.5	17.3	17.4	17.6

Source: Company data, I-Sec research

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BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return

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