

Rossari Biotech

20 February, 2023

Reuters: ROSSARI.NS; Bloomberg: ROSSARI IN

FY24 should be the year of hope

We recently interacted with the management of Rossari Biotech Ltd (ROSSARI) in order to understand the growth outlook across segments, margin trajectory and update on new business developments, which could have an impact on its earnings. Following are the KTAs from the interaction.

- Sequential margin recovery is expected to continue, led by better mix, softening RM prices, efficient pass-through and operating leverage. Key RMs are down by ~40% this year, but decline in end products in most cases is comparatively lower. This has led to a better gross margin performance. However, in select segments such as Home Care, end products' pricing is also under pressure.
- In the HPPC segment, the primary focus is restoring the growth trajectory over the next 1-2 years. Customers' loss in HPPC has been adequately compensated through other orders, but quarterly growth is flattish. The management expects 17-18% margin in this business in a normal environment. Efforts are on to increase engagements with MNCs in order to ensure customer stickiness and consistency in earnings. Also, there is enough headroom to grow by gaining wallet share over the next few years. HPPC segment business is majorly done with direct clients. Manufacturing facilities are fungible and ROSSARI will focus more on disinfectants for hospitals and pharma companies as these are high-margin products.
- Apart from Home Care, the management is working on introducing new products in the Paints segment. Water Treatment, Ceramics etc are other focus areas. In Paints, ROSSARI is focusing on defoamers, coatings, silicone products, surfactants from Unitop etc. Most products in the Paints segment are import substitutes with very limited or no competition.
- In the Detergents industry, focus is also on growing the Additive business via Tristar & ROSSARI. The company is planning to take the Detergents business global - mainly in the Middle East as an immediate priority. However, it should take some time for the same to materialise.
- The Textiles industry is under pressure as customers are facing challenges in both USA and European markets. The management indicated that ROSSARI's performance in textile chemicals is relatively better than peers. The company is working on select products backed by R&D wherein the margin profile is good. If this scales up over the next 2-3 years, it should contribute incrementally to both revenue as well as profitability. ~40% of the business is done through distributors. The management expects recovery 1QFY24 onwards.
- The AHN segment is witnessing good traction. The management expects this business to grow 2x every two years. The AHN business is largely distributor driven. The company is slowly moving towards direct clients' model.
- Unitop's performance has been significantly stronger in 1H of FY (mainly led by Agrochemicals) for the last many years. Therefore, dip in 3Q23 was in-line with expectations. In Agrochemicals, the company continues to increase its client reach in both domestic as well as export markets. Exports business is largely done through distributors. In the domestic business, there is a healthy mix between distributors and direct clients. Apart from existing end-user industries, namely, Agrochemicals and Oil & Gas, the company is working towards offering products relevant for Pharma, Surfactants, Personal Care etc in order to expand the horizon over the medium term.
- Tristar's performance has been impacted mainly by slowdown in Europe. Inventory pile-up at customers' end continues to be a challenge. The company is in the process of introducing new products (Aroma Chemicals, Preservatives for Personal Care) through Tristar apart from Phenoxyethanol.
- Buzil Rossari – subsidiary for institutional cleaning is doing well and clocking ~20% growth YoY; however, the potential is huge. The market is dominated by Diversey and hence the management expects the inflection point to come over the medium term. ROSSARI has deployed significant technical workforce and spent on expanding the distribution reach.
- ROSSARI has ~5,000 products and the timeline for launching new products is less compared to MNC. The company has >200 specialists unlike competition. The company's R&D team is constant for >15 years and addition continues. With Dahej scale-up and growth in subsidiaries, ROSSARI expects to clock gross asset turns of 5-6x in FY24.

ACCUMULATE

Sector: Chemicals

CMP: Rs689

Target Price: Rs750

Upside: 9%

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Key Data

| | |
|--------------------------|------------|
| Current Shares O/S (mn) | 55.2 |
| Mkt Cap (Rsbn/US\$mn) | 37.6/454.3 |
| 52 Wk H / L (Rs) | 1,053/648 |
| Daily Vol. (3M NSE Avg.) | 71,348 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|-----------------|-------|--------|--------|
| Rossari Biotech | (4.2) | (27.2) | (34.5) |
| Nifty Index | (1.1) | 0.4 | 3.2 |

Source: Bloomberg

Exhibit 1: Financial summary

| Particulars (Rsm) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------|-------|--------|--------|--------|--------|
| Net Sales | 7,093 | 14,830 | 16,677 | 19,440 | 22,633 |
| Growth YoY% | 18.2 | 109.1 | 12.5 | 16.6 | 16.4 |
| Gross margin % | 34.8 | 25.5 | 27.6 | 28.4 | 28.6 |
| EBITDA | 1,235 | 1,834 | 2,316 | 2,905 | 3,531 |
| EBITDA margin % | 17.4 | 12.4 | 13.9 | 14.9 | 15.6 |
| Adj PAT | 800 | 977 | 1,083 | 1,475 | 1,824 |
| Growth YoY% | 22.7 | 22.0 | 10.9 | 36.2 | 23.7 |
| Adj EPS | 15.4 | 17.7 | 19.7 | 26.8 | 33.1 |
| RoCE % | 26.6 | 22.2 | 19.6 | 22.9 | 24.0 |
| RoE % | 23.0 | 16.1 | 12.6 | 15.1 | 16.1 |
| P/E | 44.7 | 38.8 | 35.0 | 25.7 | 20.8 |
| EV/EBITDA | 28.2 | 20.4 | 16.2 | 12.8 | 10.6 |
| P/BV | 8.8 | 4.7 | 4.2 | 3.6 | 3.1 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in earnings estimates

| Particulars (Rsmn) | Old Estimates | | | New estimates | | | Change (%) | | |
|--------------------|---------------|--------|--------|---------------|--------|--------|------------|-------|-------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 16,677 | 19,440 | 22,633 | 16,677 | 19,440 | 22,633 | - | - | - |
| EBITDA | 2,316 | 2,905 | 3,531 | 2,316 | 2,905 | 3,531 | - | - | - |
| EBITDA margin | 13.9% | 14.9% | 15.6% | 13.9% | 14.9% | 15.6% | - | - | - |
| APAT | 1,083 | 1,475 | 1,824 | 1,083 | 1,475 | 1,824 | - | - | - |

Source: Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 3: Income statement

| Y/E March (Rsm) | FY21 | FY22 | FY23E | FY24E | FY25E |
|------------------------|--------------|---------------|---------------|---------------|---------------|
| Net Sales | 7,093 | 14,830 | 16,677 | 19,440 | 22,633 |
| Growth YoY% | 18.2 | 109.1 | 12.5 | 16.6 | 16.4 |
| COGS | 4,622 | 11,050 | 12,080 | 13,915 | 16,165 |
| Gross margin % | 34.8 | 25.5 | 27.6 | 28.4 | 28.6 |
| Staff costs | 420 | 679 | 736 | 854 | 953 |
| Other expenses | 816 | 1,266 | 1,546 | 1,767 | 1,984 |
| EBITDA | 1,235 | 1,834 | 2,316 | 2,905 | 3,531 |
| Growth YoY% | 17.9 | 48.5 | 26.2 | 25.5 | 21.5 |
| EBITDA margin % | 17.4 | 12.4 | 13.9 | 14.9 | 15.6 |
| Depreciation | 228 | 481 | 622 | 659 | 803 |
| EBIT | 1,007 | 1,354 | 1,694 | 2,246 | 2,728 |
| Interest | 30 | 127 | 240 | 252 | 252 |
| Other income | 87 | 120 | 35 | 35 | 35 |
| PBT (bei) | 1,068 | 1,363 | 1,494 | 2,034 | 2,516 |
| PBT | 1,068 | 1,363 | 1,494 | 2,034 | 2,516 |
| ETR | 25 | 28 | 28 | 28 | 28 |
| PAT | 800 | 977 | 1,083 | 1,475 | 1,824 |
| Adj PAT | 800 | 977 | 1,083 | 1,475 | 1,824 |
| Growth YoY% | 22.7 | 22.0 | 10.9 | 36.2 | 23.7 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

| Y/E March (Rsm) | FY21 | FY22 | FY23E | FY24E | FY25E |
|---------------------------------------|--------------|--------------|---------------|---------------|---------------|
| Share Capital | 104 | 110 | 110 | 110 | 110 |
| Reserves & Surplus | 3,984 | 7,942 | 8,970 | 10,371 | 12,104 |
| Net worth | 4,088 | 8,052 | 9,080 | 10,481 | 12,214 |
| Long term debt | - | - | - | - | - |
| Short term debt | - | 84 | 35 | 35 | 35 |
| Total debt | - | 84 | 35 | 35 | 35 |
| Other non-current liabilities | 24 | 1,569 | 1,569 | 1,569 | 1,919 |
| Total Equity & Liabilities | 4,112 | 9,705 | 10,685 | 12,086 | 14,168 |
| Gross block | 2,338 | 7,043 | 7,343 | 8,843 | 10,043 |
| Accumulated depreciation | 526 | 972 | 1,594 | 2,253 | 3,056 |
| Net Block | 1,813 | 6,071 | 5,750 | 6,591 | 6,988 |
| CWIP | 3 | 13 | 13 | 13 | 13 |
| Intangible and others | - | - | - | - | - |
| Other non-current assets | 251 | 146 | 146 | 146 | 146 |
| Investments | - | 359 | 994 | 1,244 | 3,000 |
| Trade receivables | 1,441 | 3,049 | 3,427 | 3,196 | 3,410 |
| Inventories | 954 | 1,899 | 2,650 | 2,929 | 3,100 |
| Cash & Cash equivalents | 883 | 524 | 351 | 814 | 708 |
| Other current assets | 270 | 506 | 998 | 1,195 | 1,313 |
| Total current assets | 3,547 | 5,977 | 7,426 | 8,134 | 8,532 |
| Trade payables | 1,311 | 1,862 | 2,696 | 3,142 | 3,658 |
| Other current liabilities | 191 | 1,001 | 948 | 899 | 853 |
| Total current liabilities | 1,502 | 2,862 | 3,644 | 4,041 | 4,511 |
| Total Assets | 4,112 | 9,705 | 10,685 | 12,086 | 14,168 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash flow

| Y/E March (Rsm) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------------|--------------|----------------|--------------|----------------|----------------|
| PBT | 1,064 | 1,363 | 1,494 | 2,034 | 2,516 |
| Depreciation | 228 | 481 | 622 | 659 | 803 |
| Interest | 30 | 127 | 240 | 252 | 252 |
| Other adjustments | (48) | (45) | (35) | (35) | (35) |
| Change in Working capital | (483) | (1,130) | (839) | 152 | (34) |
| Tax paid | (309) | (242) | (257) | (136) | (175) |
| Operating cash flow | 478 | 294 | 1,071 | 2,503 | 2,810 |
| Capex | (581) | (382) | (300) | (1,500) | (1,200) |
| Free cash flow | (103) | (89) | 771 | 1,003 | 1,610 |
| Other investing activities | 209 | (2,607) | (599) | (215) | (1,721) |
| Investing cash flow | (372) | (2,989) | (899) | (1,715) | (2,921) |
| Issuance of share capital | 427 | 3,015 | - | - | - |
| Movement of Debt | (610) | (48) | (49) | - | - |
| Dividend paid (incl DDT) | (25) | (28) | (54) | (74) | (91) |
| Other financing activities | (37) | (22) | (92) | (252) | 97 |
| Financing cash flow | (246) | 2,918 | (195) | (326) | 6 |
| Net change in cash flow | (140) | 223 | (23) | 462 | (105) |
| Opening C&CE | 292 | 152 | 375 | 351 | 814 |
| Closing C&CE | 152 | 375 | 351 | 814 | 708 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

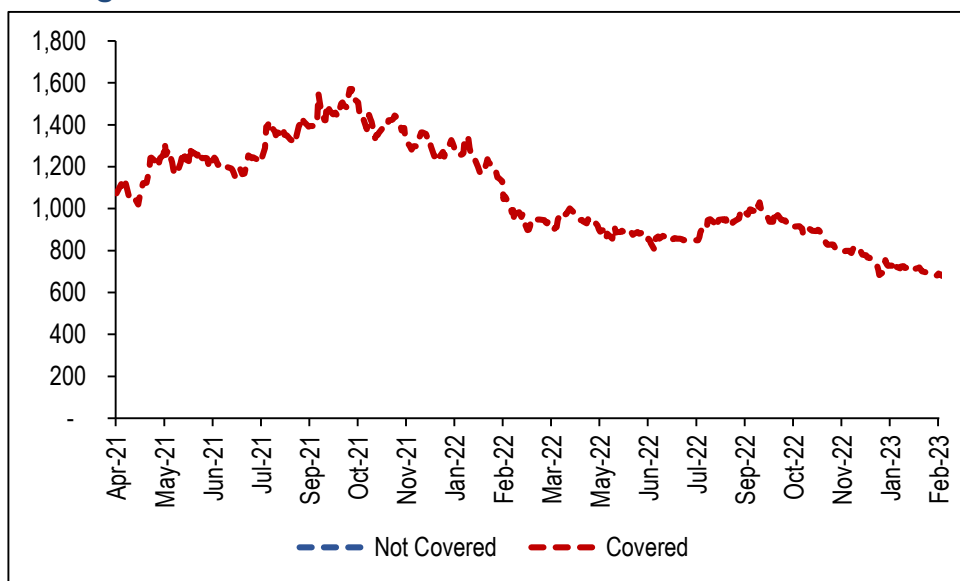
| Y/E March (Rsm) | FY21 | FY22 | FY23E | FY24E | FY25E |
|---------------------------------|------|-------|-------|-------|-------|
| Per share (Rs) | | | | | |
| Adj EPS | 15.4 | 17.7 | 19.7 | 26.8 | 33.1 |
| Book value | 78.7 | 146.2 | 164.9 | 190.4 | 221.8 |
| DPS | 0.5 | 0.5 | 1.0 | 1.3 | 1.7 |
| Valuation (x) | | | | | |
| P/Sales | 5.0 | 2.6 | 2.3 | 2.0 | 1.7 |
| EV/sales | 4.9 | 2.5 | 2.3 | 1.9 | 1.6 |
| EV/EBITDA | 28.2 | 20.4 | 16.2 | 12.8 | 10.6 |
| P/E | 44.7 | 38.8 | 35.0 | 25.7 | 20.8 |
| P/BV | 8.8 | 4.7 | 4.2 | 3.6 | 3.1 |
| Return ratios (%) | | | | | |
| RoCE | 26.6 | 22.2 | 19.6 | 22.9 | 24.0 |
| RoE | 23.0 | 16.1 | 12.6 | 15.1 | 16.1 |
| Profitability ratios (%) | | | | | |
| Gross margin | 34.8 | 25.5 | 27.6 | 28.4 | 28.6 |
| EBITDA margin | 17.4 | 12.4 | 13.9 | 14.9 | 15.6 |
| PAT margin | 11.1 | 6.5 | 6.5 | 7.6 | 8.0 |
| Liquidity ratios (%) | | | | | |
| Current ratio | 2.4 | 2.1 | 2.2 | 2.2 | 2.3 |
| Quick ratio | 1.7 | 1.4 | 1.5 | 1.5 | 1.6 |
| Solvency ratio (%) | | | | | |
| Debt to Equity ratio | - | 0.0 | 0.0 | 0.0 | 0.0 |
| Turnover ratios | | | | | |
| Fixed asset turnover ratio (x) | 4.0 | 3.2 | 2.3 | 2.4 | 3.3 |
| Debtor days | 61 | 55 | 75 | 60 | 55 |
| Inventory days | 39 | 35 | 58 | 55 | 50 |
| Creditor days | 59 | 39 | 59 | 59 | 59 |
| Net Working capital days | 42 | 51 | 74 | 56 | 46 |

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|------------|-------------------|-------------------|
| 1 April 2021 | BUY | 1,073 | 1,230 |
| 17 May 2021 | ACCUMULATE | 1,225 | 1,230 |
| 02 August 2021 | ACCUMULATE | 1,290 | 1,230 |
| 23 September 2021 | ACCUMULATE | 1,492 | 1,500 |
| 1 November 2021 | ACCUMULATE | 1,347 | 1,500 |
| 15 February 2022 | ACCUMULATE | 1,045 | 1,180 |
| 24 May 2022 | ACCUMULATE | 889 | 1,000 |
| 9 August 2022 | ACCUMULATE | 932 | 1,000 |
| 19 September 2022 | ACCUMULATE | 1,005 | 1,100 |
| 8 November 2022 | ACCUMULATE | 866 | 900 |
| 6 February 2023 | ACCUMULATE | 685 | 750 |
| 20 February 2023 | ACCUMULATE | 689 | 750 |

Rating Chart



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