

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 KTDs 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
<i>Growth YoY%</i>	18.2	109.1	12.5	16.6	16.4
<i>Gross margin %</i>	34.8	25.5	27.6	28.4	28.6
EBITDA	1,235	1,834	2,316	2,905	3,531
<i>EBITDA margin %</i>	17.4	12.4	13.9	14.9	15.6
Adj PAT	800	977	1,083	1,475	1,824
<i>Growth YoY%</i>	22.7	22.0	10.9	36.2	23.7
<i>Adj EPS</i>	15.4	17.7	19.7	26.8	33.1
<i>RoCE %</i>	26.6	22.2	19.6	22.9	24.0
<i>RoE %</i>	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 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 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 6: Key ratios

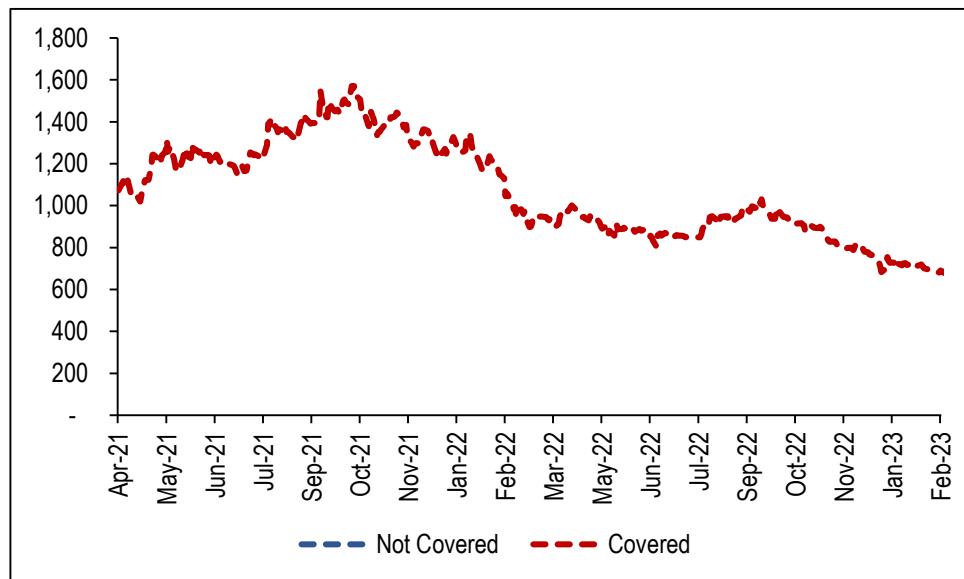
Y/E March (Rsm)	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
Adj EPS	15.4	17.7	19.7	26.8	33.1
Book value	78.7	146.2	164.9	190.4	221.8
DPS	0.5	0.5	1.0	1.3	1.7
Valuation (x)					
P/Sales	5.0	2.6	2.3	2.0	1.7
EV/sales	4.9	2.5	2.3	1.9	1.6
EV/EBITDA	28.2	20.4	16.2	12.8	10.6
P/E	44.7	38.8	35.0	25.7	20.8
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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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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