

## Rossari Biotech Limited

### IPO Note

**(SUBSCRIBE)**

**Analyst:**

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# IPO details

Key Data	
Issue Opens	13-Jul-20
Issue Closes	15-Jul-20
Equity Shares Offered (in mn.)	208.33
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	2
Price Band (Rs)	423-425
Max. Issue Size (Rs mn)	4,941.50
Lot Size (Eq. Shares)	35 and multiple thereof

Valuation	@ 423 per share	@ 425 per share
Market Cap (` mn)	21,968	22,072
Net Debt (` mn)	0	0
Enterprise Value (` mn)	21,968	22,072
EV/ Sales	3.7	3.7
EV/ EBIDTA	21.0	21.1
P/E	32.8	32.9

	Pre Issue		Post Issue <sup>^</sup>	
	# no. of Shares	% Holding	# no. of Shares	% Holding
Promoters	48.2	95.1%	37.7	72.7%
Public	2.5	4.9%	2.5	4.8%
Offer for sale		0.0%	10.5	20.2%
Fresh Issue		0.0%	1.2	2.3%
Total	50.8	100.00%	51.9	100.0%

## Object of the issue

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

## Recommendation

At the higher end of price the stock is valued at 32.9x. On the current parameters, the issue appears fully priced. However, considering bright prospects going forward with more than double installed capacity and rising patronage by top clients with long term relations, investors may consider investment for long term rewards. On a long term, the stock looks promising provided it successful overhaul. Therefore, it give **SUBSCRIBE** rating to this IPO.

Source: Red Herring Prospectus, Dealmoney Research

## About the company..

- ❑ Rossari Biotech is one of the leading specialty chemicals manufacturing companies in India based on sales for Fiscal 2019 providing customized solutions to specific industrial and production requirements of the customers primarily in the FMCG, apparel, 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 operates in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius.
- ❑ As a manufacturer of specialty chemicals, the company focus on functionality and application of the products which form a key ingredient to its customers' manufacturing and industrial processes. Rossari Biotech believes its success is the result of sustained efforts over the decades in every aspect of the business, such as product innovation, process improvements for customers' production cycle, agile customised solutions, sustainable ecofriendly portfolio of products and increased scale of operations
- ❑ Rossari Biotech business is organized in three main product categories – (i) home, personal care and performance chemicals; (ii) textile specialty chemicals; and (iii) animal health and nutrition products. As on May 31, 2020,it had a range of 2,030 different products sold across the three product categories

### Home, personal care and performance chemicals

It is the leading manufacturer of acrylic polymers in India (Source: F&S Report) and currently manufacture over 300 products for its customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. It also manufacture institutional cleaning chemical formulations for hospitality, facility management, airports, corporates, food service, commercial laundry, malls, multiplexes, educational sector, places of worship etc. The company is in advanced stages of expanding home, personal care and performance product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. The company is in planning to introduce certain new products in the personal care and cosmetics segments

## **Textile specialty chemicals**

It provides specialty chemicals for the entire value-chain of the textile industry starting from fiber, yarn to fabric, wet processing and garment processing and as on May 31, 2020, manufactures and sales approximately 1,543 products for customers in this product category. It has differentiated product portfolio by focusing on providing diversified and value added specialty chemicals to enhance hydrophilic properties, antimicrobial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties of the textiles. Revenue from sale of textile chemicals constituted 43.71% of the total revenue in Fiscal 2020. Textile industry consumes a large amount of water and significantly contributes towards water pollution, air pollution as well as solid-waste pollution (Source: F&S).

## **Animal health and nutrition**

It has also diversified into animal health and nutrition and currently supply poultry feed supplements and additives, pet grooming and pet treats including for weaning, infants and adult pets and currently manufacture over 100 products for customers in this category. It has forayed into pet grooming sub- category pursuant to acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in Fiscal 2019. While almost all products under the animal health and nutrition category are manufactured in-house, its pet treats are manufactured through job-work contracts. It sell poultry feed products through a business-to business model and pet grooming and pet treat products to retail shop owners, in both cases through distributors. The manufacture majority of products in-house from manufacturing facility at Silvassa in the Union Territory of Dadra & Nagar Haveli. The Silvassa Manufacturing Facility, located on 8.6 acres of land, has an installed capacity of 120,000 MTPA.

# Strengths

- Diversified product portfolio addressing the needs of varied and long-standing customers across industries. – it 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. For example, in the home, personal care and performance chemicals category, it currently manufacture and sell over 366 products for customers in the soaps and detergent, paints, inks and coatings, ceramics and tiles, water treatment chemicals and pulp and paper industries. Apart from serving such different industry segments, it also has diverse products under each of these verticals. For example, in soaps and detergents segment, it manufactures products with varied anti re-deposition agent which enhances product efficacy at different thresholds depending on their respective applications. It believes their approach of presenting a large portfolio of products for diversified customer applications has helped them enhance the growth and will continue to increase the brand loyalty among customers.
- Largest textile specialty chemical manufacturer in India - According to the F&S Report, it is the largest manufacturer of textile specialty chemicals in India as on September 30, 2019. It 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. It believes the operations are backed by a strong manufacturing infrastructure for production of textile specialty chemicals, a technically knowledgeable marketing team which understands the specific requirements of the customers in textile industry and an innovative and technically robust R&D team which is able to provide the right solutions with speed and efficiency based on consultations with the marketing team.
- Extensive manufacturing and technical capabilities –it manufactures majority of the products in-house from the Silvassa Manufacturing Facility, located on 8.6 acres of land. This facility has an installed capacity of 120,000 MTPA. The Silvassa Manufacturing Facility has flexible manufacturing capabilities for powders, granules and liquids which ensures that it can manufacture any of these at any point of time depending on the specific requirements of the customers. This facility has a comprehensive range of testing as well as packaging capabilities. It also has an effluent treatment plant to ensure zero liquid discharge. it is a contributor to ZDHC which is a testament to the dedicated and sincere efforts towards zero discharge. The Silvassa Manufacturing Facility has received a number of other accreditations and certifications by national and international organizations including ISO 9001:2015 and ISO 14045:2012. This facility also has 2,500 MT bulk storage capacity for acid, alkali, base oils and surfactants.

# Strengths

- ❑ Strong R&D capabilities with focus on innovation and sustainability - Our R&D efforts place significant emphasis on improving our production processes, improving the quality of our present products, creating new products and formulation and making production processes of our customers more efficient and sustainable through our effective and eco-friendly products. Our R&D efforts are driven by customer needs, in terms of meeting specific needs that our direct customers communicate to us prior to commencement of manufacturing of our products. As a specialty chemical manufacturing company, it continuously monitor industry trends so as to ensure that our products continue to remain relevant and help our customers meet the evolving market demands. It is driven by technical innovation in formulations and applications of our products in order to provide specific and customised solutions to our customers
- ❑ Wide sales and distribution network - It believes that our growth in our business operations have been made possible by our wide sales and distribution network with whom it enjoys long-standing relationships. Our pan-India distribution network has over 204 distributors as on May 31, 2020. It primarily follow a business-to-business or a business-to-business-to-consumer model for our home, personal care and performance chemicals, and textile specialty chemicals product categories. It has a wide network of 22 distributors spread over 9 states for our home, personal care and performance chemicals in India. It also has four regional branch offices in Delhi, Ludhiana, Ahmadabad and Surat for marketing of our products to the customers in the North and West Indian regions. In the textile specialty chemicals product category, it sells our products through a network of 109 distributors spread over 13 states in India and through 19 overseas distributors spread over 16 countries including in the USA, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey. Experienced Promoters with strong management team having domain knowledge
- ❑ Proven track record of robust financial performance - Our focus on functional and operational excellence has contributed to our track record of robust financial performance. In Fiscal 2020, Fiscal 2019 and Fiscal 2018, it generated total revenue of ₹ 6,038.18 million, ₹ 5,171.24 million and ₹ 3,004.29 million, respectively, EBITDA of ₹ 1,045.26 million, ₹ 776.28 million and ₹ 426.34 million, respectively and net profit after tax of ₹ 652.53 million, ₹ 456.83 million and ₹ 254.03 million, respectively. It also believes that our robust financial performance reflects the efficacy of the manufacturing and supply-chain management protocols that it has implemented. Our steady operating cash flows enable us to meet the present and future needs of our customers while our strong balance sheet and financial performance instil confidence in them. In recent years, it has strategically invested significantly in capacity expansion and technological modernisation of our Silvassa Manufacturing Facility as well as in our R&D endeavors..

## Future road ahead

- Expand manufacturing capacity and increase production efficiency - According to the F&S Report, rapid industrialization in India and China is expected to drive demand for specialty chemicals. The Asia Pacific countries are expected to dominate the market across the world, with a share of 40%, owing to the large customer base, leading to high demand for specialty chemicals, increasing industrial production, and robust growth of the construction sector in the region. The Asia Pacific is followed by North America and Europe. The global specialty chemicals market is expected to grow at a CAGR of 5.3% while the Asia Pacific is anticipated to grow at the fastest rate of 6-7% during the forecast period. The specialty chemicals industry in India is driven by both domestic consumption and exports. The growth of the market is in conjunction with the overall growth of the Indian economy
- Introduce new products and focus on green products which promote sustainability -itseek to continue to expand our specialty chemicals product portfolio to cater to the specific requirements of our customers and also expand into new business segments through introduction of new products.itcontinuously work on launch of new products through our focused R&D activities. For example,itare currently planning to launch two new products in the textile finishing range. Additionally,itare also working towards launch of products in the anti-microbial and electromagnetic protection range.itseek to focus on formulations for water treatment plants in our home, personal care and performance chemicals category and primarily target to cross-sale this product to our existing customers.itare also planning to manufacture specialty chemicals for cement industry whereithave formulated a specialty additive in-house which is used in the cement manufacturing and which improves the overall productivity and reduces production cost for cement manufacturers.
- Continue to focus on innovation and grow our business across customer segments - As a manufacturer of specialty chemicals,itunderstand that performance and functionality of our products are the primary drivers for their success with our customers. Accordingly,itseek to continue to focus on our ability to customize our products according to the specific requirements of our customers through innovation including creation of new molecules and focusing on sustainable solutions.itcontinuously seek to improve on our products to make them more effective for our customers and their applications and processes.itaaim to innovate, manufacture and supply specialty chemicals which will make the processes followed by our customers more efficient, environmentally more sustainable as well as more cost efficient.italso seek to improve our agility and flexibility in offering customized products to our customers at short notice whichitbelieve will be a differentiator among the companies engaged in manufacturing specialty chemicals in near future

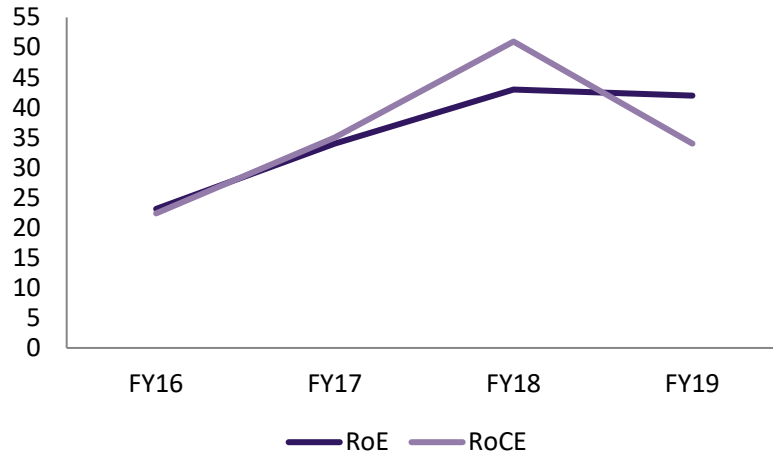
## Future road ahead

- Increase wallet share with existing customers and continued focus to expand customer base – the company’s customer base currently comprises a host of multinational, regional and local FMCG companies including, inter alia, RSPL Limited (Ghadi detergent), IFB Industries Limited, Hindustan Unilever Limited, BSH Household Appliances Manufacturing Private Limited, CICO Technologies Limited, Rentokil Initial Hygiene India Private Limited and Millennium Papers Private Limited; apparel and textile companies including, inter alia, Arvind Limited, Ashnoor Textile Mills Limited, Bhaskar Industries Private Limited, European Textile Chemical Corporation and Shahi Exports Private Limited; and poultry feed, animal feed or food-service companies including inter alia, Hitech Hatch Fresh Private Limited, Gokul Poultry Industries, Sarvottam Poultry Feed Supply Centre Private Limited and Sneha Farms Private Limited. It believes that the long-standing relationships that it has enjoyed with the customers over the years and the repeat and increased orders received from them are an indicator of the position as a preferred supplier to leading FMCG, apparel, textile and poultry feed companies.
- Expand the international operations - According to the F&S Report, the global specialty chemicals market is expected to grow at a CAGR of 5.3% with the Asia Pacific market leading with an estimated growth rate of 6-7% during the forecast period. The specialty chemicals industry in India is driven by both domestic consumption and exports. Export of specialty chemicals is also expected to grow as India will gradually become the central manufacturing hub for such specialty chemicals. In line with the market opportunities, it seek to expand their international footprint and increase sales from exports. In Fiscal 2020, Fiscal 2019 and Fiscal 2018, the revenue from exports was 11.04%, 13.92% and 13.77% of their total revenue, respectively. However, it aim to increase the share of revenue from exports in future. Further, the demand for textile specialty chemicals have risen all over the world owing to the huge production of not just apparels but also rising demand for home furnishings, floor coverings and technical textile globally. The global textile specialty chemicals market is expected to grow at a CAGR of 4.0% (by value) from 2018 to 2023.
- Inorganic growth through strategic acquisitions - Going forward, it believes that strategic investments and acquisitions of businesses in the specialty chemicals industry may act as an enabler of growing the business. It believes that the efforts at diversifying into new segments of the specialty chemicals industry or into new domestic or international markets can be facilitated by investing in similar business opportunities or making acquisitions of existing brands or businesses with manufacturing facilities, market share or growth potential, whose operations, resources, capabilities and strategies are complementary to Company. It will also continue to consider opportunities for inorganic growth in India and the Asia Pacific region, particularly to consolidate their market position in existing business lines, achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits, strengthen and expand the product portfolio, enhance the depth of experience, knowledge-base and know-how and increase the network of distributors, customers and geographical reach.

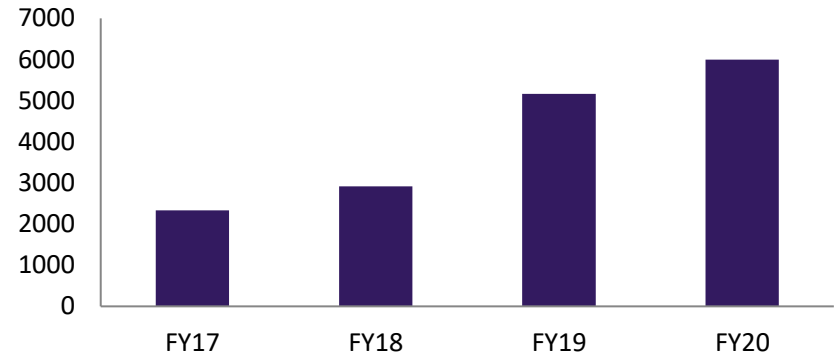


# Financial Performance

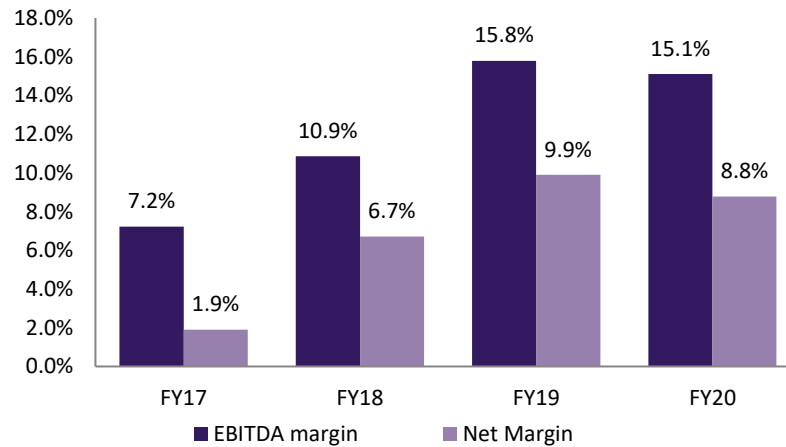
### Return Ratios (%)



### Revenue



### Margins



# Standalone Summary Financials

## Income Statement

Rs. mn	FY17	FY18	FY19	FY20
Total Income	2,334.0	2,918.0	5,162.2	6,000.9
Operating Expense	2,090.5	2,471.4	4,391.8	4,953.4
<b>EBIDTA</b>	<b>243.5</b>	<b>446.6</b>	<b>770.4</b>	<b>1,047.5</b>
Depreciation	42.8	51.6	121.9	168.5
Other Income	10.0	14.1	9.1	37.2
Finance Costs	21.4	13.6	35.8	35.6
<b>PBT</b>	<b>189.3</b>	<b>395.5</b>	<b>621.7</b>	<b>880.7</b>
Exceptional items	-	-	-	(2.2)
<b>Profit before tax</b>	<b>189.3</b>	<b>395.5</b>	<b>621.7</b>	<b>878.5</b>
Provision for Tax	32.0	105.3	168.2	225.9
<b>Profit for the year</b>	<b>157.3</b>	<b>290</b>	<b>454</b>	<b>653</b>

Rs. mn	FY17	FY18	FY19	FY20
EBIDTA Margin	7.2%	10.9%	15.8%	15.1%
Net Margin	1.9%	6.7%	9.9%	8.8%
ROE %	23.1	34	43	42
ROCE %	22.4	35	51	34

## Balance Sheet

Rs mn	FY17	FY18	FY19	FY20
<b>Liabilities</b>				
Share capital	44	44	44	102
Share Warrants & Outstandings	-	-	-	-
Reserves and surplus	610	900	1,247	2,765
Long-Term Borrowings	24	13	7	340
Deferred tax liabilities(Net)	(4)	(7)	(18)	5
Other Long Term Liabilities	-	30	30	-
Long term provisions	-	-	13	16
Other financial liabilities	-	-	-	-
Trade payables	319	404	1,049	970
Other current liabilities	45	55	81	78
Short term borrowings	195	188	33	432
Short Term Provisions	11	29	26	7
<b>Total Liabilities</b>	<b>1,245</b>	<b>1,656</b>	<b>2,511</b>	<b>4,715</b>
<b>Assets</b>				
Net Block	384	450	829	888
Capital Work in Progress	79	100	28	265
Investments	0	30	-	46
Loans & Advances	8	21	39	16
Other Non Current Assets	-	-	-	237
Currents Investments	-	42	-	137
Inventories	236	351	549	582
Trade receivables	475	598	863	941
Cash and cash equivalents	23	8	57	1,272
Loans & Advances	13	54	142	54
Other current assets	26	3	4	277
<b>Total Assets</b>	<b>1,245</b>	<b>1,656</b>	<b>2,511</b>	<b>4,715</b>

Source: Red Herring Prospectus, Dealmoney research

## Key Risks

- ❑ The continuing effect of the COVID-19 pandemic on the business and operations is highly uncertain and cannot be predicted.
- ❑ The Company is reliant on the demand from the textile industry for a significant portion of the revenue. Any downturn in the textile industry or an inability to increase or effectively manage the sales could have an adverse impact on the company's business and results of operations.
- ❑ It derives a significant portion of the revenue from a few major institutional customers in TSC and HPPC product categories.
- ❑ The manufacturing facility situated in Silvassa is critical for the business and any disturbance, slowdown or shutdown of its Silvassa Manufacturing Facility, may have an adverse impact on the business, results of operations and financial conditions.
- ❑ Increase in the cost of raw materials as a percentage of the revenue could have a material adverse effect on the results of operations and financial conditions
- ❑ The success depends on ability to develop and commercialize new products in a timely manner

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

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