

ROSSARI BIOTECH LTD

IPO

PRICE BAND : ₹ 423–₹ 425

OUR RECOMMENDATION

“SUBSCRIBE”

THE OFFER

Issue Open : 13 July 2020 to 15 July 2020

»» Issue Type: Book Built Issue IPO

»» Total Issue Size: ₹ 496.49 cr

➡ Fresh issue: Equity Shares @ 2 aggregating up to ₹ 50.00cr

➡ Offer for Sale: 10,500,000 Equity Shares @ 2 aggregating up to ₹ 446.49cr

»» Face Value: ₹ 2 Per Equity Share

»» Issue Price: ₹ 423 - ₹ 425 Per Equity Share

»» Market Lot: 35 Shares

»» Minimum Order Quantity: 35 Shares

»» Listing At: NSE & BSE

CAPITAL STRUCTURE

The share capital of Company, is set forth below:-

(Amount in ₹ except share data)

Authorized Share Capital :-

60,000,000 Equity Shares @2 Aggregate value ₹ 120,000,000

Issued, subscribed and paid up capital before the Offer :-

50,752,920 Equity Shares @2 Aggregate value ₹ 101,505,840

Fresh issue: Equity Shares @ 2 aggregating up to ₹ 50.00cr

OBJECT OF THE OFFER

The objects of the Offer are:

- Repayment/prepayment of certain indebtedness availed by company (including accrued interest)-amounting to ₹ 65cr
- Funding working capital requirements- amounting to ₹ 50cr
- General corporate purposes

COMPANY OVERVIEW

Rossari biotech is one of the leading manufacturing companies and a well-known brand in Indian specialty chemicals market, offering large portfolio of chemicals and enzymes. It is the leading manufacturer of acrylic polymers in India. Also, it operates in ***17 foreign countries including Vietnam, Bangladesh and Mauritius.*** Has a pan-India distribution network of over 204 distributors.

Company provides customized solutions to specific industrial and production requirements of customers primarily in the FMCG, apparel, poultry and animal feed industries. ***It has diversified product portfolio comprising of:***

- ⇒ **Home, personal care and performance chemicals (HPPC);**
- ⇒ **Textile specialty chemicals; and**
- ⇒ **Animal health and nutrition products.**

As on May 31, 2020, had a range of 2,030 different products sold across the above mentioned product categories.

Rossari is in the advanced stages of expanding its **HPPC** product portfolio *to water treatment formulations, specialty formulation for breweries as well as dairies. Also, it is planning to introduce certain new products in the **personal care and cosmetics segments**.* Though primarily company operates in the B-B model, but it also sells certain end formulations to direct consumers under private label or in partnership with digital market platforms such as Amazon.

In the **Animal health and nutrition products portfolio**, company have introduced additional products in pet grooming and pet treats product sub-category, which are relatively new to the portfolio. This was pursuant to acquisition of the '**Lozalo**' brand, related trademarks and intellectual property in FY2019.

Thus, the expertise of company has been in supply of specialty chemicals and industrial enzymes to institutional customers following a business-to-business or a business-to-business-to-consumer model for HPPC & textile specialty chemicals product categories. *But, through introducing additional products in pet grooming and pet treats product sub-category, they are targeting on making direct sales to the end consumer in the business-to-customer segment.*

Company manufactures the majority of its products in-house from their manufacturing facility at Silvassa in the Union Territory of Dadra & Nagar Haveli. It has **2 R&D facilities**-one within the Silvassa Manufacturing Facility and second one is in Mumbai.

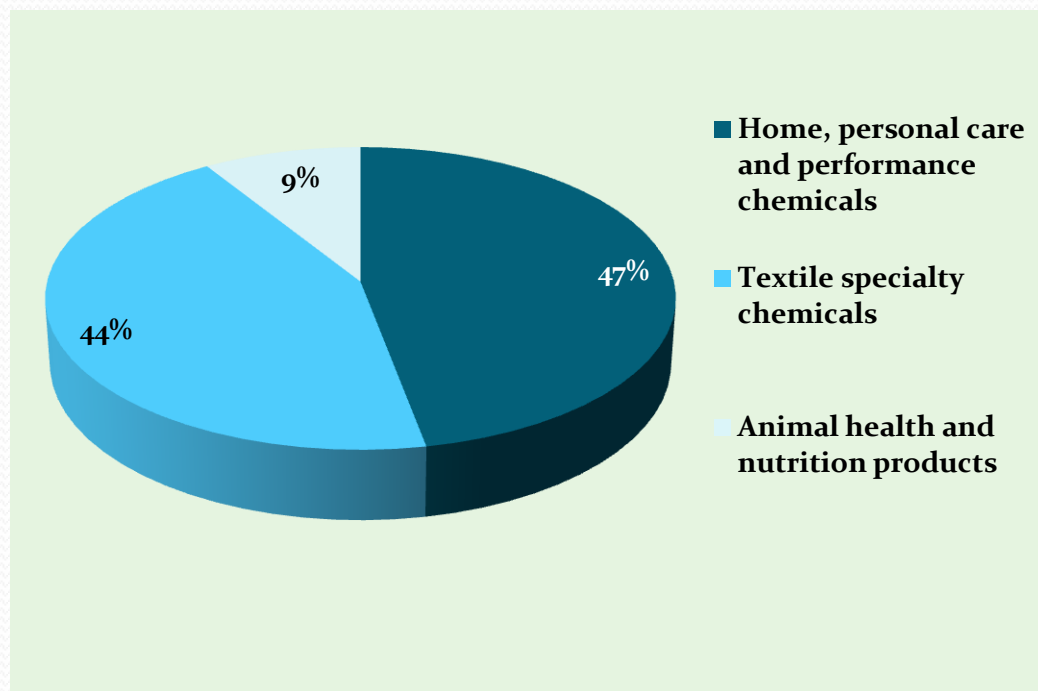
The **Silvassa Manufacturing Facility**, has an installed capacity of **120,000 MTPA**. The annual capacity utilization of this Manufacturing Facility has moved from 74.19% in FY 2018 to 93.94% in FY 2019 and to **82.46% in FY2020**.

Also, is in the process of establishing new manufacturing, unit at the **Dahej Gujarat** with a proposed installed capacity of **132,500 MTPA** which will enjoy proximity to the deepwater, multi-cargo port of Dahej. ***The estimated commissioning of this unit is FY2021. This would significantly double the company's capacity. Moreover, with the additional capacity management is confident of not requiring any further capex done for the next 3-4 years tenure.***

Revenue Break-up

	Fiscal 2020	
	Amount (in ₹ million)	% to revenue from operations
Revenue from Operations		
Within India	5,338.59	88.96
Outside India	662.35	11.04

As on March 2020



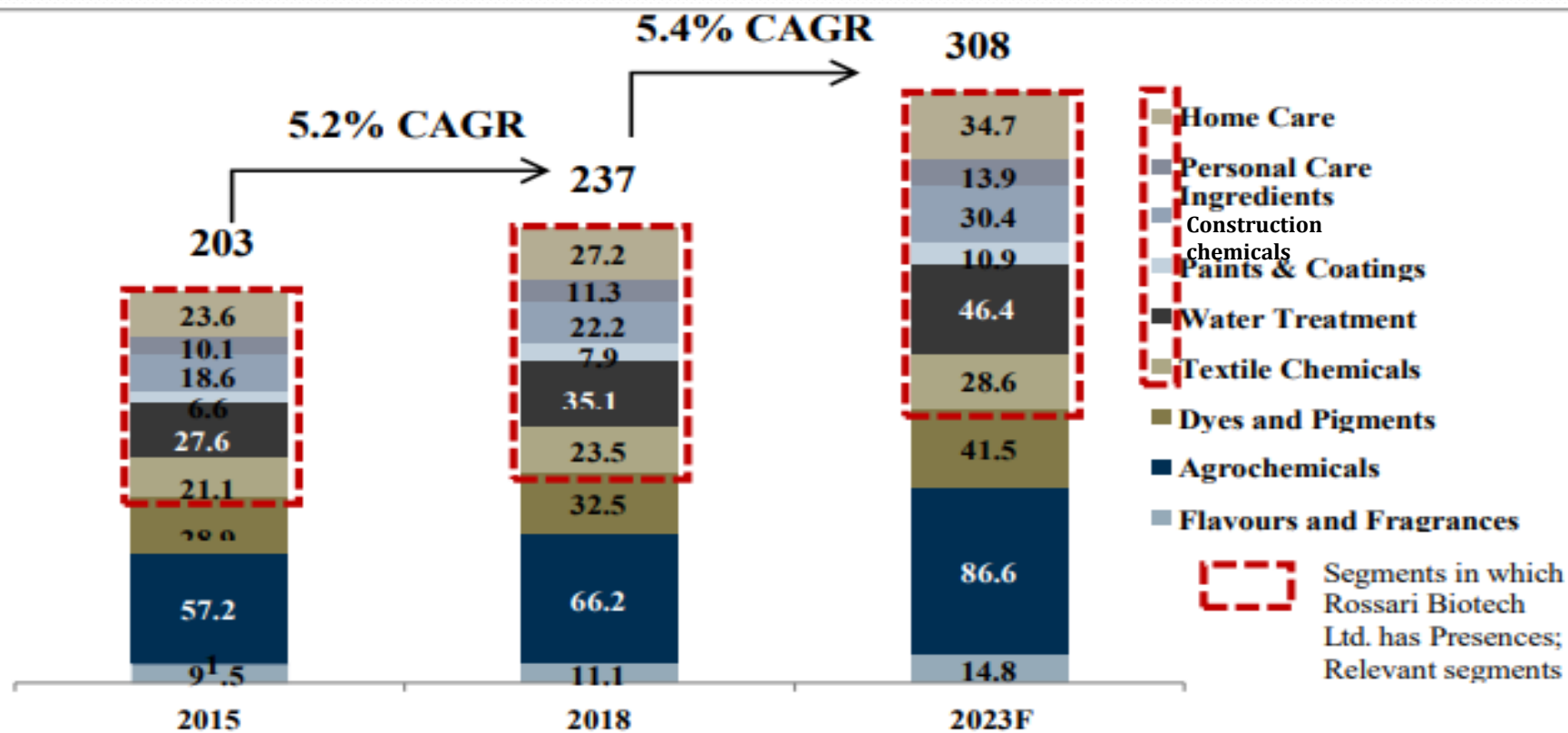
PEER COMPARISON

Name of the Company	Total Revenue (₹ in million)	Face Value (₹)	P/E	EPS (Basic) (₹)	Return on Net Worth (%)	NAV per share (₹)
Rossari Biotech Limited	6,001	2	[●]	13.42	31.79%	56.48
Listed Peers						
Aarti Industries Limited	41,863	5	30.93	30.77	18.89%	176.39
Vinati Organics Limited	10,288	1	30.45	32.48	28.65%	124.48
Atul Limited	40,930	10	19.94	224.69	22.70%	1,072.58
Galaxy Surfactants Limited	25,963	10	22.02	64.99	23.70%	301.20
Fine Organics Industries Limited	10,380	5	35.24	53.75	29.45%	201.86

Source: DRHP

The company delivered the highest RONW at 31.79% amongst its other listed peers as on 31st march FY20.

INDUSTRY OVERVIEW



Source: DRHP

The Global Specialty Chemicals Market cumulatively constitute a market of USD 237 billion in 2018 and is expected to grow at 5.4% p.a. to reach USD 308 billion by 2023. Paints & Coating additives and construction chemicals, are expected to be the fastest growing segments at 6.5% CAGR during the five year forecast period

GROWTH DRIVERS

- Increasing Demand for Personal Care Products among Men
- Growing Awareness Leading to an Increase in Consumer Demand
- Home Furnishing Textiles Creating a Sustainable Marketplace
- Regulatory Ban on the Use of Antibiotics as Growth Promoters in Animal Feed is expected to drive the Demand for Antibiotic Alternatives
- Rising Demand for Premium Pet Food will drive the Demand for Highly Specialized Ingredients:
- Growing per Capita Consumption of Meat Products with High Demand for Animal Protein will drive the Demand for Feed Additives, Especially Amino Acids

STRENGTHS

- Proven track record of robust financial performance
- Experienced Promoters with strong management team having domain knowledge
- ▲ Diversified product portfolio addressing the needs of varied and long-standing customers across industries
- Extensive manufacturing and technical capabilities
- ▲ Strong R&D capabilities with focus on innovation and sustainability
- ▲ Wide sales and distribution network

FINANCIAL HIGHLIGHTS

The company generated total revenues of ₹ 603.80 cr during FY20 against ₹ 517.14cr in the previous year.

EBITDA grew at ₹ 104.2cr during FY20. The EBITDA margins expanded to 17.4% which are expected to sustain further.

PAT grew at ₹ 65.25cr during FY20 against ₹ 45.68cr in the previous year.

Having strong fundamentals, Rossari has significantly performed well over years. In terms of the CAGR rate, Revenue has grown at a CAGR of 41.65%, EBITDA at a CAGR of 56.58% & PAT at CAGR of 60.27% over FY18-20.

Company has strong financial ratios. The RONW & ROCE stood at 31.79% & 24.79% during FY20. The total debt to equity ratio stood at 0.23.

The management expects the company to be debt free in near term.

RISK FACTORS

- The continuing effect of the COVID-19 pandemic
- Downturn in the textile industry
- Comprise more than 90% of revenue from institutional customers in TSC and HPPC product categories.
- Failure to comply with the quality standards and technical specifications.
- Increase in crude oil prices.
- Fluctuations in foreign currency exchange rates.
- Competition from existing players and new entrants may result in pricing pressure
- Failure to comply with government regulations.

VALUATION

*The company is in the process of establishing new manufacturing, unit at the Dahej Gujarat with a proposed installed capacity of 132,500 MTPA (already has an installed capacity of 120,000 MTPA in the Silvassa Manufacturing Facility). **The estimated commissioning of this unit is FY2021. This would significantly double the company's capacity. Moreover, with the additional capacity the management is confident of not requiring any further capex done for the next 3-4 years tenure.***

Company generates around 43% of revenue from Textile specialty segment, which can be a concern as this sector is hit hard by pandemic. Although, company has reduced its dependence from 72% in FY19.

On an upper price band of ₹425, with EPS at ₹13.42 for FY 20, the stock is available at a P/E ratio of 32x which is greater than the industry average P/E of 27x. Though the company is overvalued at the current P/E but, as the company has strong balance sheet with impressive ROWN at 32% and to be debt free in near term, we expect after pandemic the forward earnings could be very good. In addition to this, the business model & the specialty chemical space that the company is into, this particular sector is gaining attraction. Thus, we recommend to subscribe the IPO for listing gains or very long term.

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