

Rossari Biotech (ROSSARI)

Chemicals | Management Meet Update

BUY

CMP: Rs715 | Target Price (TP): Rs850 | Upside: 19%

March 18, 2024

HPPC continues to be the key growth driver

Key Points

- We recently interacted with the management of ROSSARI to better understand the growth drivers and update on expansion plans.
- The management sounded optimistic about HPPC[^] growth, wherein the relevant end-user industries are witnessing strong demand.
- We upgrade ROSSARI to Buy after rolling-forward valuation to FY26E earnings (25x PE). We believe that the Dahej ramp-up in FY25 and commissioning of new capacities during 2HFY25 should facilitate double-digit volume growth in FY25 and FY26.

HPPC-driven growth should continue in FY25: The management indicated that demand across the key end-user industries continues to remain solid. While overall pricing is down by ~20% YoY, volume momentum is on track. Ethoxylation capacity is operating at full utilisation and the company had to let go off some orders of Phenoxyethanol due to capacity constraints. We highlight that HPPC growth during 3QFY24 was driven mainly by specialty surfactants (>30% volume growth, mainly non-agro), phenoxy series (strong volume growth, was offset by a drop in realisations), institutional cleaning and performance chemicals.

Growth prospects equally strong in domestic and exports markets: ROSSARI was predominantly a domestic focussed company before acquiring Unitop and Tristar wherein overseas revenue share used to be in high single digits, mainly pertaining to textile chemicals sales in Bangladesh and select other countries. Currently, despite a significant decline in Textile chemicals exports to Bangladesh, exports share has risen to ~25% led by strong demand in Agro related surfactants, personal care (Phenoxyethanol) and even select food emulsifiers. Unitop and Tristar delivered ~25% YoY and ~5% (volume growth was strong) YoY value growth in 3QFY24.

B2C products and Retail opportunity: Institutional cleaning business is showing a good growth momentum during FY24 and management sounded confident on nearly doubling the same in FY25 backed by strong distribution expansion and customer connect. Institutional cleaning along with Pet business (shampoo and other products) together can achieve critical mass in the near-term. Also, our channel checks suggest that contract manufacturing for Retail chains like D-Mart and Reliance Retail is on the rise.

Expansion projects and M&A potential: ROSSARI's upcoming capex of Rs1.8bn for two projects with ECOD during 2HFY25 and peak revenue potential of Rs4bn together can potentially deliver ~20% pre-tax ROIC, as per our back-of-the-envelope calculations. These two projects (Ethoxylation and further expansion of Dahej) can drive growth FY26 onwards. On top of it, any potential M&A opportunity might lead to an upside in our earnings.

Est Change	No change
TP Change	Upward
Rating Change	Upward

Company Data and Valuation Summary

Reuters:	ROSB.BO
Bloomberg:	ROSSARI IN
Mkt Cap (Rsb/US\$mn):	39.1 / 472.9
52 Wk H / L (Rs):	904 / 536
ADTV-3M (mn) (Rs/US\$):	74.9 / 0.9
Stock performance (%) 1M/6M/1yr:	(5.1) / (14.4) / 26.8
Nifty 50 performance (%) 1M/6M/1yr:	1.3 / 2.7 / 29.7

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	68.4	68.4	68.3
DII's	17.7	17.7	18.1
FII's	6.1	5.7	4.1
Others	7.7	8.2	9.5
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Sales	16,559	18,421	21,274	25,524
Growth YoY%	11.7	11.2	15.5	20.0
Gross margin %	29.3	28.1	28.6	28.8
EBITDA	2,230	2,490	2,973	3,675
EBITDA margin %	13.5	13.5	14.0	14.4
Adj PAT	1,073	1,231	1,486	1,878
Growth YoY%	9.8	14.8	20.7	26.4
Adj EPS	19.4	22.3	26.9	34.1
RoCE (pre-tax) %	17.8	16.6	17.4	19.4
RoCE %	13.2	12.3	12.9	14.4
RoE %	12.5	12.6	13.5	14.9
P/E	36.8	32.0	26.5	21.0
EV/EBITDA	17.4	15.8	13.2	10.4
P/BV	4.3	3.8	3.4	2.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links:

[3QFY24 Presentation](#)

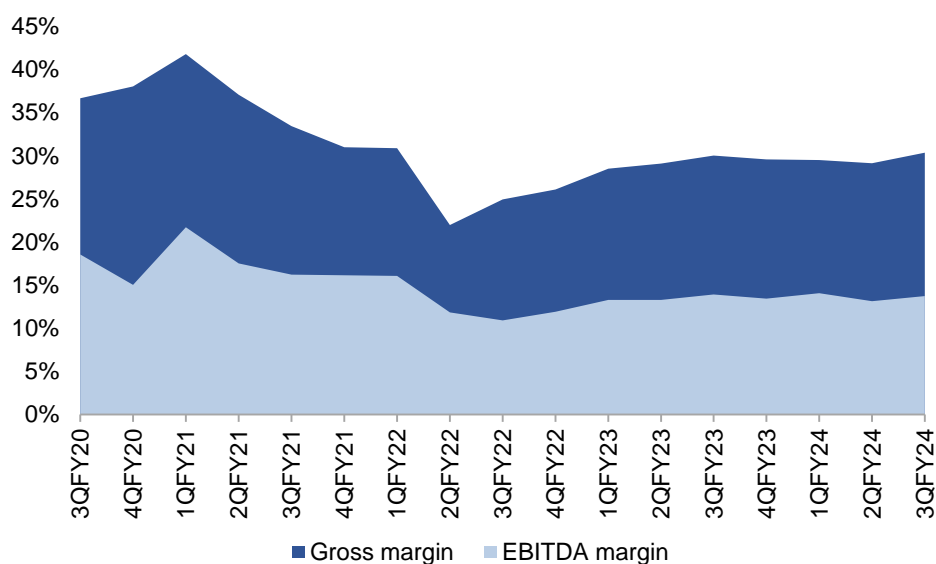
[^]HPPC stands for Home & personal care and Performance chemicals

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Consolidated segment-wise quarterly details

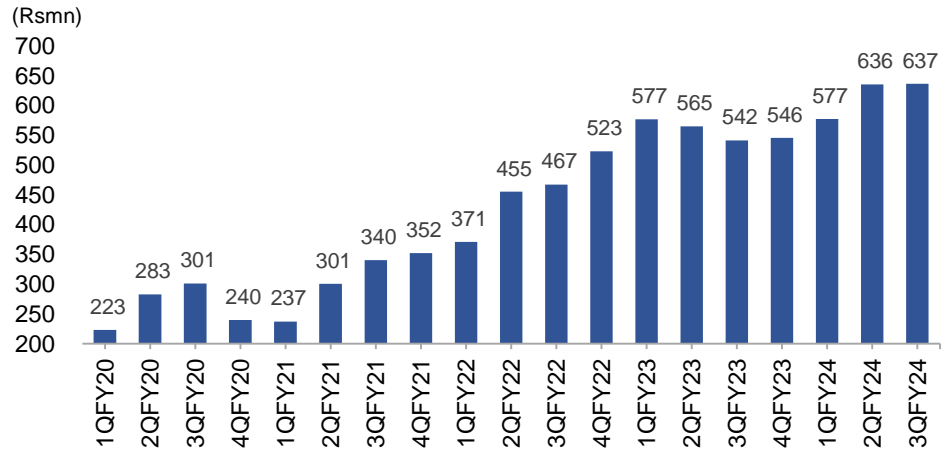
Segment-wise Details	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Revenue Break-up											
HPPC	1,323	2,344	3,052	3,036	3,165	3,038	2,712	2,654	3,012	3,671	3,554
TSC	747	1,108	1,028	1,098	939	919	895	985	809	959	834
AHN	241	393	204	255	243	302	286	425	285	205	250
Total Revenue	2,311	3,845	4,284	4,389	4,347	4,259	3,893	4,064	4,106	4,835	4,638
Segment Mix											
HPPC	57%	61%	71%	69%	73%	71%	70%	65%	73%	76%	77%
TSC	32%	29%	24%	25%	22%	22%	23%	24%	20%	20%	18%
AHN	10%	10%	5%	6%	6%	7%	7%	10%	7%	4%	5%
Segment growth YoY											
HPPC	58%	167%	155%	180%	139%	30%	-11%	-13%	-5%	21%	31%
TSC	332%	62%	31%	25%	26%	-17%	-13%	-10%	-14%	4%	-7%
AHN	177%	152%	67%	17%	1%	-23%	41%	67%	17%	-32%	-13%
Segment growth QoQ											
HPPC	22%	77%	30%	-1%	4%	-4%	-11%	-2%	13%	22%	-3%
TSC	-15%	48%	-7%	7%	-15%	-2%	-3%	10%	-18%	19%	-13%
AHN	11%	63%	-48%	25%	-5%	24%	-5%	48%	-33%	-28%	22%

Source: Company, Nirmal Bang Institutional EquitiesResearch

Exhibit 2: Consolidated gross margin & EBITDA margin quarterly trend


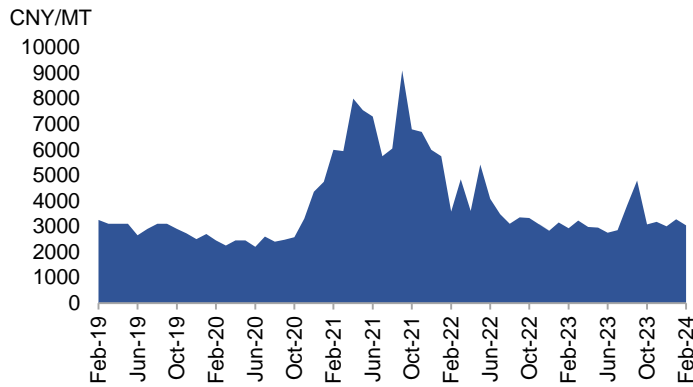
Source: Company, Nirmal Bang Institutional EquitiesResearch

Exhibit 3: EBITDA gradually inching upwards



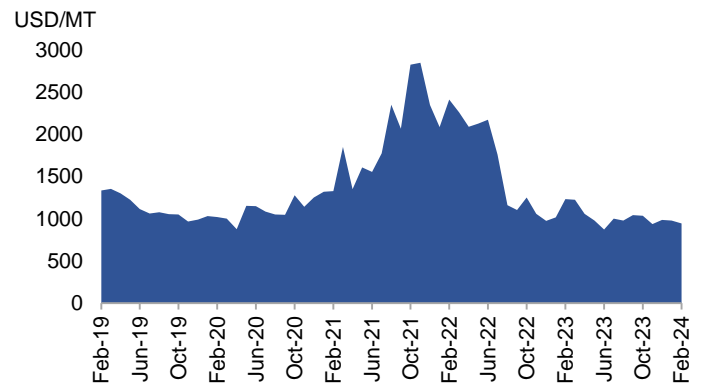
Source: Company, Nirmal Bang Institutional EquitiesResearch

Exhibit 4: Acetic Acid (China) back to pre-Covid level



Source: Bloomberg, Nirmal Bang Institutional EquitiesResearch

Exhibit 5: Acrylic Acid (China) back to pre-Covid level



Source: Bloomberg, Nirmal Bang Institutional EquitiesResearch

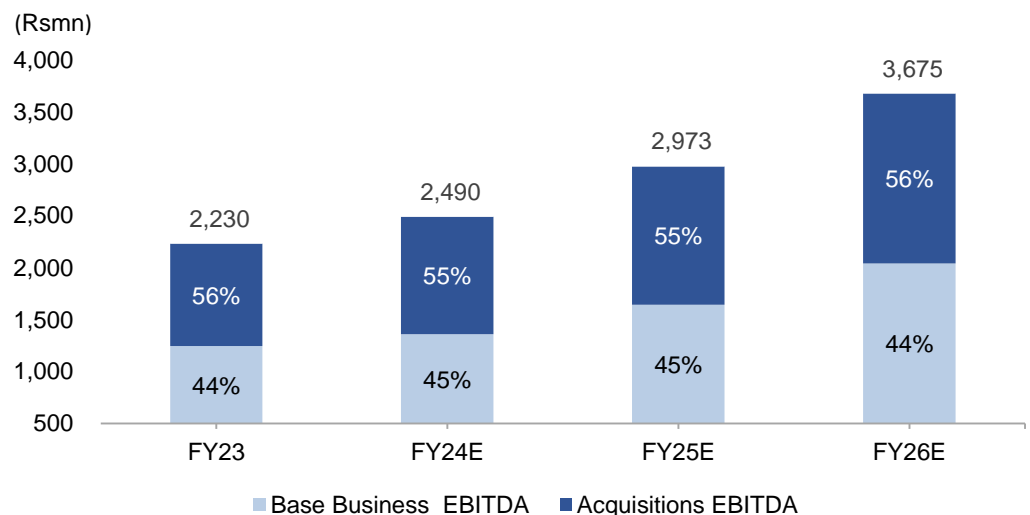
Exhibit 6: Consolidated revenue assumptions

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Segment Revenue (mn)									
HPPC base business	553	1,952	2,809	3,993	5,560	4,762	5,429	6,406	7,559
Acquisitions (Unitop, Tristar&Romakk)	-	-	-	-	4,101	6,808	8,566	9,784	11,911
TSC	2,143	2,694	2,623	2,517	4,047	3,732	3,359	3,695	4,249
AHN	294	516	569	583	1,121	1,257	1,068	1,389	1,806
Total	2,991	5,162	6,001	7,093	14,830	16,559	18,421	21,274	25,524
Segment wise growth									
HPPC base business	45%	253%	44%	42%	39%	-14%	14%	18%	18%
Acquisitions (Unitop, Tristar&Romakk)	-	-	-	-	-	NA	26%	14%	22%
TSC	6%	26%	-3%	-4%	61%	-8%	-10%	10%	15%
AHN	59%	76%	10%	2%	92%	12%	-15%	30%	30%
Segment wise share									
HPPC base business	19%	38%	47%	56%	37%	29%	29%	30%	30%
Acquisitions (Unitop, Tristar&Romakk)	-	-	-	-	28%	41%	46%	46%	47%
TSC	72%	52%	44%	35%	27%	23%	18%	17%	17%
AHN	10%	10%	9%	8%	8%	8%	6%	7%	7%

Note: Unitop and Tristar acquisitions came into effect during 2HFY22

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Consolidated EBITDA- we are building in ~18% CAGR over FY23-FY26E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in earnings estimates

Consolidated (Rsmn)	Old Estimates			New Estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	18,421	21,274	25,524	18,421	21,274	25,524	-	-	-
EBITDA	2,490	2,973	3,675	2,490	2,973	3,675	-	-	-
EBITDA margin	13.5%	14.0%	14.4%	13.5%	14.0%	14.4%	-	-	-
APAT	1,231	1,486	1,878	1,231	1,486	1,878	-	-	-

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 9: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	14,830	16,559	18,421	21,274	25,524
Growth YoY%	109.1	11.7	11.2	15.5	20.0
COGS	11,050	11,713	13,238	15,194	18,169
Gross margin %	25.5	29.3	28.1	28.6	28.8
Staff costs	679	986	981	1,133	1,365
Other expenses	1,266	1,629	1,712	1,974	2,316
EBITDA	1,834	2,230	2,490	2,973	3,675
Growth YoY%	48.5	21.6	11.7	19.4	23.6
EBITDA margin %	12.4	13.5	13.5	14.0	14.4
Depreciation	481	629	704	821	965
EBIT	1,354	1,601	1,786	2,152	2,710
Interest	127	223	223	250	280
Other income	120	55	82	86	86
PBT (bei)	1,363	1,442	1,655	1,998	2,526
PBT	1,363	1,442	1,655	1,998	2,526
ETR (%)	28.3	25.6	25.6	25.6	25.6
PAT	977	1,073	1,231	1,486	1,878
Adj PAT	977	1,073	1,231	1,486	1,878
Growth YoY%	22.0	9.8	14.8	20.7	26.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	110	110	110	110	110
Reserves & Surplus	7,942	9,041	10,211	11,623	13,407
Net worth	8,052	9,152	10,321	11,733	13,517
Long term debt	-	349	349	349	349
Short term debt	84	390	1,000	1,000	1,000
Total debt	84	739	1,349	1,349	1,349
Other non-current liabilities	1,569	706	706	732	757
Total Equity & Liabilities	9,705	10,597	12,376	13,814	15,624
Gross block	7,043	7,414	8,714	10,014	11,014
Accumulated depreciation	972	1,578	2,282	3,103	4,068
Net Block	6,071	5,836	6,432	6,911	6,946
CWIP	13	131	131	131	131
Intangible and others	-	30	30	30	30
Other non-current assets	146	215	215	215	215
Investments	359	512	512	512	512
Trade receivables	3,049	3,537	3,785	4,371	5,245
Inventories	1,899	1,885	2,776	3,206	3,846
Cash & Cash equivalents	524	1,246	1,336	1,497	2,331
Other current assets	506	285	341	375	375
Total current assets	5,977	6,952	8,238	9,449	11,796
Trade payables	1,862	1,852	2,019	2,331	2,797
Other current liabilities	1,001	1,227	1,163	1,103	1,210
Total current liabilities	2,862	3,079	3,182	3,434	4,007
Total Assets	9,705	10,597	12,376	13,814	15,624

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,363	1,442	1,655	1,998	2,526
Depreciation	481	629	704	821	965
Interest	127	223	223	250	280
Other adjustments	(55)	(21)	(82)	(86)	(86)
Change in Working capital	(1,120)	(272)	(1,093)	(797)	(941)
Tax paid	(242)	(250)	(259)	(292)	(351)
Operating cash flow	294	1,524	983	1,673	2,096
Capex	(382)	(329)	(1,300)	(1,300)	(1,000)
Free cash flow	(89)	1,195	(317)	373	1,096
Other investing activities	(2,607)	(1,480)	82	86	86
Investing cash flow	(2,989)	(1,809)	(1,218)	(1,214)	(914)
Issuance of share capital	3,015	42	-	-	-
Movement of Debt	(48)	655	610	-	-
Dividend paid (incl DDT)	(28)	(28)	(61)	(74)	(94)
Other financing activities	(22)	(61)	324	(224)	(255)
Financing cash flow	2,918	609	873	(298)	(349)
Net change in cash flow	223	324	638	161	833
Opening C&CE	152	375	698	1,336	1,497
Closing C&CE	375	698	1,336	1,497	2,331

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

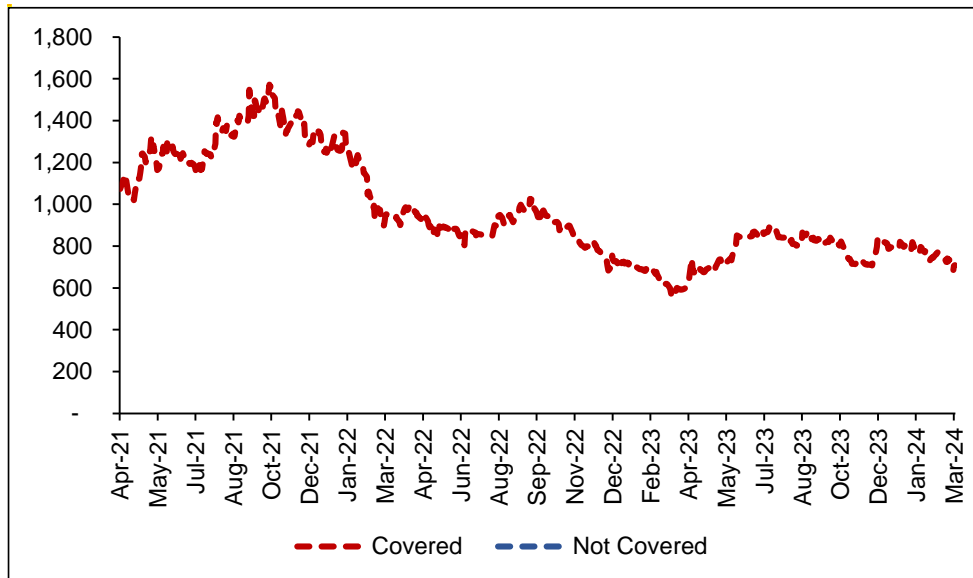
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
Adj EPS	17.7	19.4	22.3	26.9	34.1
Book value	146.2	166.2	187.5	213.1	245.5
DPS	0.5	0.5	1.1	1.3	1.7
Valuation (x)					
P/Sales	2.7	2.4	2.1	1.9	1.5
EV/sales	2.6	2.3	2.1	1.8	1.5
EV/EBITDA	21.2	17.4	15.8	13.2	10.4
P/E	40.3	36.8	32.0	26.5	21.0
P/BV	4.9	4.3	3.8	3.4	2.9
Return ratios (%)					
RoCE	15.9	13.2	12.3	12.9	14.4
RoCE (pre-tax)	22.2	17.8	16.6	17.4	19.4
RoE	16.1	12.5	12.6	13.5	14.9
Profitability ratios (%)					
Gross margin	25.5	29.3	28.1	28.6	28.8
EBITDA margin	12.4	13.5	13.5	14.0	14.4
PAT margin	6.5	6.5	6.7	7.0	7.3
Liquidity ratios (%)					
Current ratio	2.1	2.1	2.0	2.2	2.4
Quick ratio	1.4	1.5	1.4	1.5	1.6
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.1	0.1	0.1	0.1
Net Debt to Equity ratio	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)
Turnover ratios					
Fixed asset turnover ratio (x)	3.2	2.3	2.3	3.2	3.7
Debtor days	55	73	75	75	75
Inventory days	35	42	55	55	55
Creditor days	39	41	40	40	40
Net Working capital days	51	73	90	90	90

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
02 May 2023	ACCUMULATE	695	780
31 July 2023	ACCUMULATE	840	820
04 September 2023	ACCUMULATE	853	820
23 October 2023	ACCUMULATE	803	820
23 January 2024	ACCUMULATE	791	810
18 March 2024	BUY	715	850

Rating Chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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