

Scrip Name	Offer Size
Rossari Biotech Ltd	Fresh Issue: 50cr Offer for sale : 446cr (approx)

Issue Highlights

Issue Opens	Monday, 13 ^h July 2020
Issue Closes	Wednesday, 15th July 2020
Price Band	Rs. 423 – Rs. 425
Bid Lot	35 Shares
Face Value	Rs. 2
BRLM	Axis Capital ICICI Securities

Offer Break-up

Category	Allocation	Rs. In Crs.
QIB	50%	248.12
Non-Institutional	15%	74.44
Retail	35%	173.69
Total	100%	496

Promoters of the Company

Edward Menezes Sunil Chari

Company Overview

Rossari Biotech Limited (RBL) 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 its customers primarily in the FMCG, apparel, poultry and animal feed industries through their diversified product portfolio comprising home, personal care and performance chemicals; textile specialty chemicals; and animal health and nutrition products. RBL operates in India as well as in 17 foreign countries including Vietnam, Bangladesh and Mauritius. According to the F&S Report, as on September 30, 2019, RBL is the largest manufacturer of textile specialty chemicals in India providing textile specialty chemicals in a sustainable, eco-friendly yet competitive manner. As a manufacturer of specialty chemicals, RBL focuses on functionality and application of products which form a key ingredient to their customers' manufacturing and industrial processes.

The Promoters, Mr. Edward Menezes, and Mr. Sunil Chari, commenced the specialty chemicals business in 2003, as a partnership firm in the name of 'Rossari Labtech' which was subsequently changed to 'Rossari Biotech' and further converted into Rossari Biotech Ltd. It was founded in 2009 by the Promoters, who are both career technocrats, cumulatively having over 45 years of experience in the specialty chemicals industry. RBL has focused on providing customized solutions to its customers in a cost and time efficient manner. They believe their success is the result of sustained efforts over the decades in every aspect of the business, such as product innovation, process improvements for the customers' production cycle, agile customized solutions, its sustainable ecofriendly portfolio of products and increased scale of operations. Their business operations have been led by its Promoters and assisted by their experienced Key Managerial Personnel who have over 80 years of experience in the specialty chemicals industry cumulatively. Today, RBL is a pioneering force in the Indian specialty chemicals market and 'Rossari' is considered a well-known brand in this market

Source – Company DRHP

RBL's 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 September 30, 2019, it had a range of 1,948 different products sold across the three product categories.

Home, personal care and performance chemicals

RBL is the leading manufacturer of acrylic polymers in India 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. They 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 its home, personal care and performance product portfolio to water treatment formulations, specialty formulation for breweries as well as dairies. Revenue from sale of home, personal care and performance products constituted 46.11% and 37.81% of the total revenue in the six months ended September 30, 2019 and Fiscal 2019.

Textile specialty chemicals

The company 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 September 30, 2019, manufactures and sales approximately 1,520 products for its customers in this product category. It has differentiated the product portfolio by focusing on providing diversified and value added specialty chemicals to enhance hydrophilic properties, anti-microbial properties, flame retardant properties, fragrance, water repellents and UV absorbing properties of the textiles. Revenue from sale of textile chemicals constituted 44.82% and 52.18% of the total revenue in the six months ended September 30, 2019 and Fiscal 2019.

Animal health and nutrition

RBL 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 its customers in this category. It forayed into pet grooming sub-category pursuant to the acquisition of the 'Lozalo' brand and related trademarks, intellectual property and employees in Fiscal 2019. Revenue from sale of animal health and nutrition products constituted 9.08% and 10.00% of total revenue in the six months ended September 30, 2019 and Fiscal 2019.

Strenghts

- Industry leading working capital cycle: Company has a very efficient working capital cycle with Inventory days at 42, receivable days at 66 and payable days at 40 with total working capital cycle of 68 days which is partially responsible for high return ratios.
- Reputed client profile and customer stickiness: RBL has a reputed client list with clients like HUL, Raymond, Ghadi etc and it provides solutions which are unique and difficult to engineer. This will ensure profitability and customer stickiness going forward.
- Animal Nutrients high growth business: Company has grown its top line from animal nutrients business at 40% CAGR in the last few years. Amongst animal nutrients, 'LOZALO'; shampoo for dogs and cats have seen exponential growth.
- Capacity Expansion: Since 2019, the growth has tapered off mainly due to capacity constraints. Company has incurred a capex of 90cr and installed 132,500 MTPA. 70cr of this is already spent and trials have started in July. Company expects the full capacity to be operational by March 2021. This expansion will double company's capacity from existing 120,000MTA.
- Not dependent on imports from China: Most of the company's raw materials are procured domestically with imports being only 10% of total raw materials purchased. Import from China accounts for less than 5% and hence any barriers levied on trade from China will have minimal impact on company.
- Improving revenue mix: Company has increased sales from HPPC segment which is comparatively a higher margin business which has aided to overall margin expansion of the company.

KEYNOTE

Valuations

Post issue market capitalization of the company will be around Rs. 2207 crores. The company will be valued at 33.8x FY20 earnings. Despite RBL being a clean and high growth company, most of the positives have been factored in the price and hence upside seems capped. The stock can provide listing gains but it is advisable to wait for prices to correct and buy at reasonable valuations.

Profit & Loss for the period

Particulars	31st March 2018	31st March 2019	31st March 2020
Revenue from Operations	299.06	516.21	600.09
Expenses	256.43	438.6	495.35
Operating Profit	42.63	77.61	104.74
<i>Operating Profit margin</i>	<i>14.25%</i>	<i>15.03%</i>	<i>17.45%</i>
Other income	1.36	0.9	3.7
Interest expense	1.35	2.87	3.55
Depreciation expense	5.17	12.26	16.85
Profit before tax	37.47	63.38	88.04
Tax expense	12.07	17.7	22.58
Profit After tax	25.4	45.68	65.46
<i>PAT Margin</i>	<i>8.49%</i>	<i>8.85%</i>	<i>10.91%</i>

Balance Sheet as on

<u>I. ASSETS</u>			
1 Non-current assets	31st March 2018	31st March 2019	31st March 2020
Property, Plant and Equipment	53.27	77.94	110.51
Intangible assets	0.04	5.97	4.76
Financial Assets	0.03	0.35	4.56
Other non-current assets	1.67	5.82	25.36
Inventories	34.61	54.89	58.17
Trade receivables	61.55	85.91	94.13
Cash & Bank balance	0.96	6	127.23
Other current assets	12.81	12.95	46.79
Total Assets	164.95	249.84	471.51
<u>II. Equities & Liabilities</u>			
Equity share capital	4.4	4.4	10.15
Other equity	82.68	119.41	276.52
Total Equity	87.08	123.81	286.67
Non-current liabilities	4.58	4.23	36.12
Trade payables	43.95	105.97	96.99
Other current liabilities	29.33	15.82	51.72
Total Liabilities	164.95	249.84	471.51

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