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Q4FY21 results review  
and reco change

## Specialty Chemicals

Target price Rs1,090

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.8	↑ 4.7
EBITDA	↓ 2.6	↓ 2.6
PAT	↑ 1.6	↓ 0.8

### Target price revision

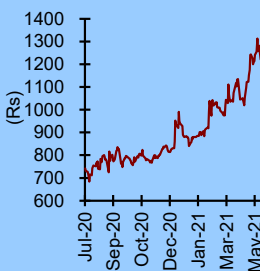
Rs1,090 from Rs1,020

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	72.7	72.7	68.7
Institutional investors	19.2	20.0	21.9
MFs and others	12.4	11.3	11.6
Banks /FIs	0.0	0.0	0.0
Insurance Cos.	1.0	0.9	0.9
FIs	5.8	7.8	9.4
Others	8.1	7.3	9.4

Source: BSE

### Price chart



# Rossari Biotech

## REDUCE

Downgrade from Hold

## Rs1,221

### Inorganic growth is key to watch

Rossari Biotech's Q4FY21 EBITDA growth of 47% YoY to Rs352mn came in line with our estimates; but helped by lower other expenses, while gross profit margin was under pressure on raw material price volatility. Company remains confident of delivering strong revenue growth in FY22 on higher capacity and contribution from newer performance chemicals. RM inflation pass-through should help improve gross profit margins (guided range: 32-38%). Rossari has ambition for inorganic growth with strict criteria of debt-free company with >20% RoCE, which may not come cheap. We are not sure on synergic benefit from the likely acquisition(s), and would evaluate them when announced. We cut our net profit estimates by 1% each for FY22E/FY23E and factor equity dilution. Our revised DCF-based target price (terminal growth rate of 6.5% {earlier 6%}) stands at Rs1,090. Downgrade to REDUCE (from *Hold*) on high valuation at 51x FY23E EPS.

- ▶ **HPPC remains strong, textile chemicals and AHN normalise.** Home personal care and performance chemicals (HPPC) segment continued to grow strong at 42% YoY (but down 9.3% QoQ) to Rs1.1bn. HPPC's sequential revenue decline was due to non-availability of RMs on logistics issue. Company sees HPPC revenues to continue robust growth in FY22 on new capacity addition and take-off in newer segments in performance chemicals. Textile chemicals and animal health and nutrition (AHN) bounced back with growth of 30% and 41% YoY to Rs879mn and Rs218mn respectively on low base, which was hurt from first wave of covid. Textile chemical business would be impacted from the second wave as well. Company remains confident of consuming entire expanded capacity of 2.5x in next 3-4 years.
- ▶ **EBITDA margin saved by very low other expenses; gross profit margin under pressure.** Rossari's revenues grew by a strong 37% YoY and 3.9% QoQ, and benefited from commissioning of new plant at Dahej. However, gross profit margin dipped 700bps YoY and 245bps QoQ (on raw material price volatility) to 31%, which restricted gross profit growth to just 11.4% YoY, but down 3.7% QoQ, to Rs676mn. Other expenses declined 23% YoY (down 18% QoQ) to Rs208mn helping EBITDA growth of 47% YoY to Rs352mn, and net profit growth of 49% YoY to Rs224. Consolidated numbers include full consolidation of Buzil Rossari, which became a wholly-owned subsidiary in Q3FY21 (from being JV).
- ▶ **Inorganic growth – key to watch.** Rossari has raised Rs3bn via QIP for inorganic growth. The objective of acquisitions is to enter new product categories within four chemistries, access technology, have footprint in new geographies (export market) and achieve backward integration. The concern in higher benchmark valuations for chemical companies and expensive acquisitions, is that they may not be EPS / value accretive. Backward integration may not give any strategic edge and will consume considerable efforts in our view.

Market Cap	Rs67.1bn/US\$916mn	Year to Mar	FY20	FY21P	FY22E	FY23E
Bloomberg	ROSSARI IN	Revenue (Rs bn)	6.0	7.1	9.6	11.4
Shares Outstanding (mn)	54.9	Rec. Net Income (Rs bn)	0.7	0.8	1.1	1.3
52-week Range (Rs)	1,313/425	EPS (Rs)	12.9	14.6	19.7	24.0
Free Float (%)	31.3	% Chg YoY	(37.9)	13.3	34.9	21.9
FII (%)	9.4	P/E (x)	94.6	83.5	61.9	50.8
Daily Volume (US\$'000)	3,079	CEPS (Rs)	16.2	18.8	25.1	30.3
Absolute Return 3m (%)	32.9	EV/E (x)	58.4	50.9	37.4	30.5
Absolute Return 12m (%)	NA	Dividend Yield (%)	0.0	0.0	0.3	0.5
Sensex Return 3m (%)	(4.0)	RoCE (%)	27.1	14.1	13.5	14.8
Sensex Return 12m (%)	61.2	RoE (%)	31.9	16.0	14.3	15.5

### Research Analysts:

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**Table 1: Rossari Biotech (consolidated) financials**

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue	1,595	1,095	1,717	2,100	2,182	3.9	36.8
COGS	989	638	1,080	1,398	1,506	7.7	52.3
<b>Gross profit</b>	<b>607</b>	<b>457</b>	<b>636</b>	<b>702</b>	<b>676</b>	<b>(3.7)</b>	<b>11.4</b>
<i>GPM (%)</i>	38.0	41.8	37.1	33.4	31.0		
Employee cost	95	74	122	109	116	6.8	21.7
<i>% of revenue</i>	6.0	6.7	7.1	5.2	5.3		
Other expenses	271	146	214	253	208	(17.8)	(23.4)
<i>% of revenue</i>	17.0	13.4	12.5	12.0	9.5		
<b>Total expenses</b>	<b>367</b>	<b>220</b>	<b>336</b>	<b>362</b>	<b>324</b>	<b>(10.4)</b>	<b>(11.6)</b>
<b>EBITDA</b>	<b>240</b>	<b>237</b>	<b>301</b>	<b>340</b>	<b>352</b>	<b>3.4</b>	<b>46.7</b>
<i>EBITDA (%)</i>	15.0	21.7	17.5	16.2	16.1		
Depreciation	46	38	56	61	74	21.8	60.5
<b>EBIT</b>	<b>194</b>	<b>199</b>	<b>245</b>	<b>280</b>	<b>278</b>	<b>(0.5)</b>	<b>43.5</b>
Other income	20	16	40	8	29	280.8	41.5
Finance cost	10	11	7	4	8		
<b>PBT</b>	<b>204</b>	<b>204</b>	<b>278</b>	<b>284</b>	<b>299</b>	<b>5.4</b>	<b>46.4</b>
Tax	53	53	71	68	77	14.0	44.2
<i>ETR (%)</i>	26.2	25.9	25.4	23.8	25.8		
Minority interest	0	(4)	(0)	-	(2)		
<b>Net profit</b>	<b>151</b>	<b>155</b>	<b>207</b>	<b>216</b>	<b>224</b>	<b>3.7</b>	<b>48.5</b>
<i>Net profit (%)</i>	9.5	14.2	12.1	10.3	10.3		
EPS (Rs)	2.7	2.8	3.8	3.9	4.1	3.7	48.5

Source: Company data, I-Sec research

**Table 2: Rossari Biotech segmental revenue breakup**

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
<b>Segment revenue</b>							
HPPC	766	835	877	1,196	1,085	(9.3)	41.6
Textile chemicals	674	173	683	782	879	12.4	30.4
Animal health & nutrition	155	87	156	122	218	78.7	40.6
<b>Total</b>	<b>1,595</b>	<b>1,095</b>	<b>1,716</b>	<b>2,100</b>	<b>2,182</b>	<b>3.9</b>	<b>36.8</b>
<b>Mix (%)</b>							
HPPC	48.0	76.3	51.1	57.0	49.7		
Textile chemicals	42.3	15.8	39.8	37.2	40.3		
Animal health & nutrition	9.7	7.9	9.1	5.8	10.0		

Source: Company data, I-Sec research

**Table 3: Rossari Biotech (standalone) financials**

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue	1,595	1,095	1,737	2,058	2,015	(2.1)	26.3
COGS	989	638	1,103	1,397	1,379	(1.3)	39.4
<b>Gross profit</b>	<b>607</b>	<b>457</b>	<b>634</b>	<b>661</b>	<b>636</b>	<b>(3.7)</b>	<b>4.9</b>
<i>GPM (%)</i>	38.0	41.8	36.5	32.1	31.6		
Employee cost	95	72	112	88	95	7.3	(0.6)
<i>% of revenue</i>	6.0	6.5	6.5	4.3	4.7		
Other expenses	270	146	221	249	197	(20.6)	(26.9)
<i>% of revenue</i>	16.9	13.3	12.7	12.1	9.8		
<b>Total expenses</b>	<b>365</b>	<b>217</b>	<b>333</b>	<b>337</b>	<b>292</b>	<b>(13.3)</b>	<b>(20.0)</b>
<b>EBITDA</b>	<b>242</b>	<b>240</b>	<b>300</b>	<b>324</b>	<b>344</b>	<b>6.2</b>	<b>42.4</b>
<i>EBITDA (%)</i>	15.1	21.9	17.3	15.8	17.1		
Depreciation	46	38	55	59	69	18.3	50.7
<b>EBIT</b>	<b>196</b>	<b>202</b>	<b>246</b>	<b>265</b>	<b>275</b>	<b>3.5</b>	<b>40.5</b>
Other income	20	16	50	11	25		
Finance cost	10	11	7	4	8		
<b>PBT</b>	<b>205</b>	<b>206</b>	<b>289</b>	<b>273</b>	<b>292</b>	<b>7.1</b>	<b>42.2</b>
Tax	54	53	71	66	78	17.6	46.0
<i>ETR (%)</i>	26.1	25.9	24.6	24.4	26.8		
<b>Net profit</b>	<b>152</b>	<b>153</b>	<b>218</b>	<b>206</b>	<b>214</b>	<b>3.7</b>	<b>40.9</b>
<i>Net profit (%)</i>	9.5	14.0	12.5	10.0	10.6		

Source: Company data, I-Sec research

**Table 4: Rossari Biotech (consolidated minus standalone) financials**

<i>(Rs mn)</i>	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue	-	-	(20)	42	167
COGS	-	-	(23)	1	127
<b>Gross profit</b>	-	-	<b>3</b>	<b>41</b>	<b>40</b>
<i>GPM (%)</i>			(12.7)	97.5	23.9
Employee cost	0	2	9	20	21
<i>% of revenue</i>				48.3	12.8
Other expenses	2	0	(7)	4	11
<i>% of revenue</i>				10.5	6.4
<b>Total expenses</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>25</b>	<b>32</b>
<b>EBITDA</b>	<b>(2)</b>	<b>(2)</b>	<b>0</b>	<b>16</b>	<b>8</b>
<i>EBITDA (%)</i>			(0.8)	38.7	4.8
Depreciation	-	-	1	2	5
<b>EBIT</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>	<b>14</b>	<b>3</b>
Other income	0	0	(10)	(3)	3
Finance cost	-	-	-	-	-
<b>PBT</b>	<b>(1)</b>	<b>(2)</b>	<b>(11)</b>	<b>11</b>	<b>7</b>
Tax	(0)	(1)	(0)	1	(1)
<i>ETR (%)</i>	11.0	25.1	3.6	10.1	(17.0)
<b>Net profit</b>	<b>(1)</b>	<b>(2)</b>	<b>(11)</b>	<b>10</b>	<b>8</b>
<i>Net profit (%)</i>			53.0	23.1	4.8

Source: Company data, I-Sec research

**Table 5: Earnings revision**

<i>(Rs mn)</i>	Revised		Earlier		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	9,581	11,445	9,144	10,928	4.8	4.7
EBITDA	1,664	2,019	1,708	2,073	(2.6)	(2.6)
EBITDA (%)	17.4	17.6	18.7	19.0		
PAT	1,082	1,320	1,066	1,330	1.6	(0.8)
EPS (Rs)	11.3	11.5	11.7	12.2	(3.1)	(5.3)

Source: Company data, I-Sec research

## Financial summary

Table 6: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Income (Sales)</b>	<b>6,001</b>	<b>7,093</b>	<b>9,581</b>	<b>11,445</b>
Gross profit	2,284	2,472	3,194	3,805
Gross profit margin (%)	38.1	34.8	33.3	33.2
Operating Expenses	1,236	1,241	1,530	1,786
<b>EBITDA</b>	<b>1,047</b>	<b>1,231</b>	<b>1,664</b>	<b>2,019</b>
% margins	17.5	17.3	17.4	17.6
Depreciation & Amortisation	169	228	297	342
Net Interest	36	30	-	-
Other Income	37	92	80	88
<b>Recurring PBT</b>	<b>881</b>	<b>1,064</b>	<b>1,447</b>	<b>1,765</b>
Add: Extraordinaries	-	-	-	-
Less: Taxes	226	268	365	445
- Current tax				
- Deferred tax				
<b>Net Income (Reported)</b>	<b>655</b>	<b>803</b>	<b>1,082</b>	<b>1,320</b>
<b>Recurring Net Income</b>	<b>655</b>	<b>803</b>	<b>1,082</b>	<b>1,320</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	3,424	6,958	8,357	9,704
of which cash & cash eqv.	1,272	4,263	4,665	5,231
Total Current Liabilities & Provisions	1,174	1,387	1,874	2,238
<b>Net Current Assets</b>	<b>2,251</b>	<b>5,570</b>	<b>6,483</b>	<b>7,465</b>
<b>Investments</b>	<b>137</b>	<b>137</b>	<b>137</b>	<b>137</b>
<b>of which</b>				
Strategic/Group	-	-	-	-
Other Marketable	137	137	137	137
<b>Net Fixed Assets</b>	<b>1,153</b>	<b>1,434</b>	<b>1,387</b>	<b>1,395</b>
<b>Goodwill</b>				
<b>Total Assets</b>	<b>3,541</b>	<b>7,142</b>	<b>8,008</b>	<b>8,998</b>
<b>Liabilities</b>				
Borrowings	669	-	-	-
Deferred tax liability	5	5	5	5
Other financial liabilities				
Equity Share Capital	102	110	110	110
Face Value per share (Rs)	2.0	2.0	2.0	2.0
Reserves & Surplus	2,765	7,027	7,893	8,883
<b>Net Worth</b>	<b>2,867</b>	<b>7,137</b>	<b>8,003</b>	<b>8,993</b>
<b>Total Liabilities</b>	<b>3,541</b>	<b>7,142</b>	<b>8,008</b>	<b>8,998</b>

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	1,095	1,717	2,100	2,182
% growth (YoY)	(14.4)	14.2	29.3	36.8
EBITDA	237	301	340	352
Margin (%)	21.7	17.5	16.2	16.1
Other income	16	40	8	29
Add: Extra ordinaries	-	-	-	-
<b>Net profit</b>	<b>155</b>	<b>207</b>	<b>216</b>	<b>224</b>

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cash flow</b>	<b>859</b>	<b>964</b>	<b>1,300</b>	<b>1,574</b>
Working Capital Changes	(311)	(329)	(511)	(417)
Capital Commitments	(760)	(509)	(250)	(350)
<b>Free Cash Flow</b>	<b>(211)</b>	<b>126</b>	<b>539</b>	<b>808</b>
<b>Cash flow from Investing Activities</b>	<b>(1,143)</b>	<b>92</b>	<b>80</b>	<b>88</b>
Issue of Share Capital	1,000	3,500	-	-
Inc (Dec) in Borrowings	629	(669)	-	-
Dividend paid & Others	(59)	(57)	(216)	(330)
<b>Chg. in Cash &amp; Bank balance</b>	<b>215</b>	<b>2,991</b>	<b>402</b>	<b>566</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	12.9	14.6	19.7	24.0
Reported EPS	12.9	14.6	19.7	24.0
Recurring Cash EPS	16.2	18.8	25.1	30.3
Dividend per share (DPS)	0.4	0.5	3.9	6.0
Book Value per share (BV)	56.5	129.9	145.7	163.7
<b>Growth Ratios (%)</b>				
Operating Income	16.2	18.2	35.1	19.5
EBITDA	34.9	17.5	35.2	21.3
Recurring Net Income	43.3	22.6	34.9	21.9
Diluted Recurring EPS	-37.9	13.3	34.9	21.9
Diluted Recurring CEPS	-38.4	15.7	33.8	20.5
<b>Valuation Ratios (x)</b>				
P/E	94.6	83.5	61.9	50.8
P/CEPS	75.2	65.0	48.6	40.3
P/BV	21.6	9.4	8.4	7.5
EV / EBITDA	58.4	50.9	37.4	30.5
EV / Operating Income	10.2	8.8	6.5	5.4
EV / Operating FCF	-45.2	287.6	100.6	68.9
<b>Operating Ratio</b>				
Other Income / PBT (%)	4.2	8.6	5.5	5.0
Effective Tax Rate (%)	25.7	25.2	25.2	25.2
NWC / Total Assets (%)	27.6	18.3	22.7	24.8
Inventory Turnover (days)	35.4	40.4	41.4	42.4
Receivables (days)	57.3	60.0	61.0	62.0
Payables (days)	59.0	59.0	59.0	59.0
Net Debt/EBITDA Ratio (x)	(0.7)	(3.6)	(2.9)	(2.7)
Capex % of sales	12.7	7.2	2.6	3.1

Return/Profitability Ratio (%)

Recurring Net Income Margins	10.9	11.3	11.3	11.5
RoCE -post tax	27.1	14.1	13.5	14.8
RoIC	39.0	30.8	34.5	36.8
RoNW	31.9	16.0	14.3	15.5
Dividend Yield	0.0	0.0	0.3	0.5
Gross Margins	38.1	34.8	33.3	33.2
EBITDA Margins	17.5	17.3	17.4	17.6

Source: Company data, I-Sec research

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BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return

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