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Initiating coverage

Specialty Chemicals

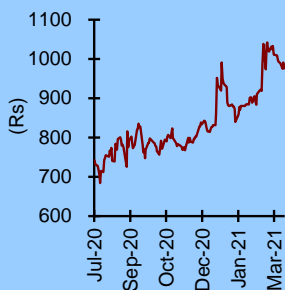
Target price Rs1,020

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	72.7	72.7	72.7
Institutional investors	13.9	19.2	20.0
MFs and others	5.2	12.4	11.3
Banks /FIs	1.1	0.0	00
Insurance Cos.	1.1	1.0	0.9
FIs	6.5	5.8	7.8
Others	13.4	8.1	7.3

Source: BSE

Price chart



Rossari Biotech

HOLD

Formulation and application specialists

Rs976

Rossari Biotech (Rossari) has competency in four chemistries used for textile chemicals, but it has successfully applied its learnings into the new industries of HPPC, which has expanded its addressable market multifold. This was done without compromising on margins, balance sheet or RoIC (which remains the best among peers). Company is likely to have expanded its capacity >2x by FY21-end, which provides strong earnings visibility. Revenue and net profit are estimated to grow at CAGRs of 22% and 26% over FY20-FY23E. Our estimate does not include likely inorganic growth which management hinted in Q3FY21 earnings call. Initiate with HOLD and DCF-based target price of Rs1,020.

- ▶ **Proven competency and track record.** Rossari has strong hold on four chemistries – acrylic polymer, surfactants, silicones, and enzymes, which are used in textile chemicals (TCs). It has become market leader in TCs in India and has also been able to apply its learnings to two segments: 1) home, personal care and performance chemicals (HPPCs), and 2) animal health and nutrition (ANH). In fact, the opportunity in HPPC is so large that it gives us confidence in sustained high growth in the foreseeable future.
- ▶ **Formulation and application expertise at the core.** Rossari is a sales-driven organisation unlike peers, which are focused on manufacturing. Rossari's product innovation, formulations and applications are derived from customer requirements, or problem solving. Company therefore needs to be close to customers, hence its technical sales force is one of the largest in the industry.
- ▶ **Greenfield expansion in Dahej provides revenue growth visibility.** Formulation business does not require huge investment in production. The equipments commonly used are mixers and blenders, which are fungible across products, while bulk chemicals are bought from other manufacturers. Rossari has 120ktpa capacity in Silvassa and is in the process of completing greenfield capacity of 132.5ktpa at Dahej by FY21-end. This will expand its capacity >2x at an investment of ~Rs1bn. Company envisages peak capacity utilisation in the next 3-4 years, which should help increase revenues >2x.
- ▶ **Unique business model, but initiate with HOLD on little margin of safety.** We like Rossari's business model: 1) focus on formulations, 2) asset-light nature, and 3) working capital discipline (best among peers). This is helping the company generate industry-leading 'FCF to sales' ratio (8% in FY23E) and RoIC (33.6% in FY23E). However, we initiate coverage with a **HOLD** rating on rich valuations at 4.6x FY23E P/S and 38x FY23E P/E, which offers little margin of safety. **Downside risks:** 1) pressure on margins from RM price volatility linked to crude; and 2) possibility of inorganic expansion, which needs to be ascertained independently (refer page 31).

Market Cap	Rs50.7bn/US\$698mn	Year to Mar	FY20	FY21E	FY22E	FY23E
Bloomberg	ROSSARI IN	Revenue (Rs mn)	6,001	7,093	9,144	10,928
Shares Outstanding (mn)	51.9	EBITDA(Rs mn)	1,047	1,269	1,708	2,073
52-week Range (Rs)	1,042/425	Net Income (Rs mn)	655	808	1,066	1,330
Free Float (%)	27.3	EPS (Rs)	12.9	15.6	20.5	25.6
FII (%)	7.8	P/E (x)	75.7	62.7	47.6	38.1
Daily Volume (US\$'000)	2,510	CEPS (Rs)	16.2	19.6	26.7	32.6
Absolute Return 3m (%)	18.0	EV/E (x)	46.6	39.3	28.9	23.5
Absolute Return 12m (%)	NA	Dividend Yield	0.0	0.2	0.4	0.7
Sensex Return 3m (%)	6.4	RoCE (%)	36.5	27.9	31.0	31.7
Sensex Return 12m (%)	64.9	RoE (%)	31.9	23.4	23.8	24.6

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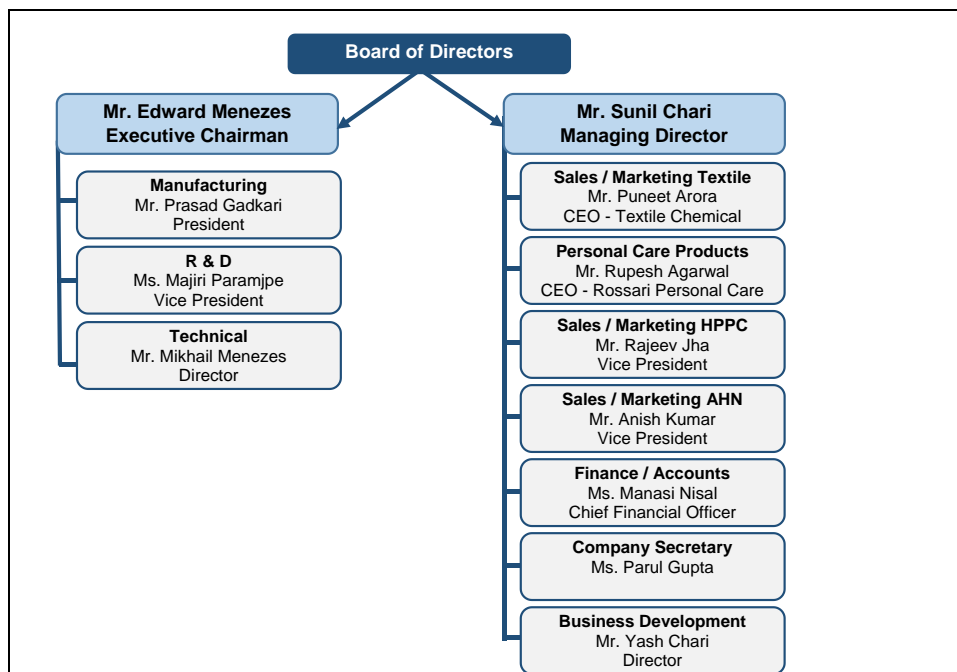
About Rossari Biotech

Rossari Biotech (Rossari) commenced operations in CY03 as a partnership firm, under the name *Rossari Labtech*, by Mr. Edward Menezes and Mr. Sunil Chari dealing in specialty chemicals. Subsequently, it changed its name to *Rossari Biotech* and converted into a company in CY09. Mr. Menezes and Mr. Chari are career technocrats. Mr. Menezes holds a bachelor's degree in science (technology) in textile chemicals from Mumbai University's UDCT. He has previously worked with Clariant India Ltd (erstwhile Sandoz India Ltd), a leading textile chemical manufacturer. His experience in specialty chemicals spans >25 years. Mr. Chari holds a diploma in technical and applied chemistry from VJTI, Mumbai, and has 20 years of experience in specialty chemicals.

The next generation is also involved in the business, thus providing visibility on continuity. Mr. Mikhail Menezes, son of Mr. Edward, looks at technical development and holds a masters in chemical engineering from Imperial College of Science, Technology and Medicine, London. Mr. Yash Chari, son of Mr. Sunil, is involved in business development, and holds degree in chemical engineering from University of South Florida, US.

Rossari Personal Care (erstwhile Neutron Impex, subsidiary) shareholders' agreement was executed on 26th Jun'20 among the company, Fairplum Pvt Ltd, VSTAR Family Trust, and Mr. Rupesh Agarwal. Consequently, shareholding of Rossari Personal Care (wholly owned subsidiary of Rossari Biotech earlier) changed to 60%, 30% and 10% in favour of Rossari Biotech, Fairplum and VSTAR respectively. Rossari has also bought 40% stake from BUZIL-WERK Wagner, a German company, in Buzil Rossari, making Buzil Rossari wholly owned subsidiary, which is in the business of industrial and institutional cleaning.

Chart 1: Organisational structure



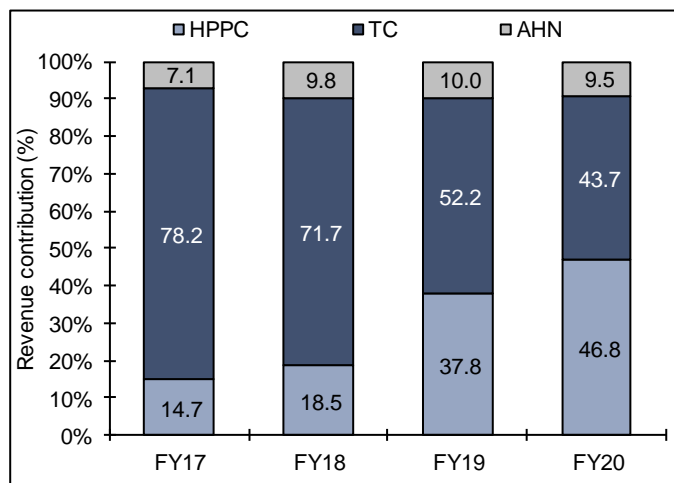
Source: RHP

Rossari started as manufacturer of textile chemicals, and successfully diversified into animal health and nutrition (AHN) in CY11 and home, personal care and performance chemicals (HPPC) in CY13. It became market leader in textile chemicals in CY19 (in just 10 years of operation) as per Frost & Sullivan report. It has been fast expanding into HPPC and has seen some good success in past few years. HPPC segment already contributed 46.8% of Rossari revenues in FY20, which indicates the company's ability to diversify into newer segments.

Rossari's success can be attributed to focus on providing customised solutions for FMCG, textile, and animal feed and pet care industries. Company's core strength is driven by: technical innovation in formulations and applications of products in order to provide specific and customised solutions, unlike most specialty chemical companies which have manufacturing as core strength and low-cost manufacturing as a key competitive advantage. Rossari has scaled up its business on product innovation and agile customised solutions. Management does not see much role for manufacturing. Processes are standard and mostly require mixers and blenders. The other key area of focus is strong product portfolio of ecofriendly products. Since sustainability is one of the key strategies for the end-chemical users, Rossari would benefit from faster growth in its ecofriendly portfolio.

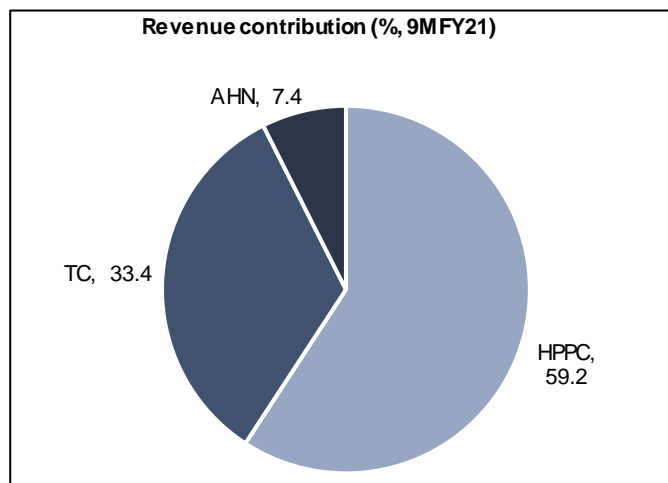
Rossari business is categorised into three business segments: 1) home, personal care and performance chemicals (HPPC); 2) textile chemicals (TCs); and 3) animal health and nutrition (AHN). Company's business has evolved in the past few years and has diversified from being just a TC company.

Chart 2: In past few years, Rossari has diversified into HPPC and AHN business segments...



Source: I-Sec research, Company

Chart 3: ...and TCs now account for only 33.4% of revenues vs 59.2% by HPPC and 7.4% by AHN



Source: I-Sec research, Company

Rossari's business is built on four chemistries: 1) acrylic polymers, 2) surfactants, 3) silicones, and 4) enzymes. These chemistries find huge applications in all the three business verticals of the company.

- Acrylic polymers:** More than 90% of all polymers used in detergents are made by polymer manufacturers relying on acrylic acid as anionic polycarboxylates. Acrylic polymers are produced by polymerising acrylic acid monomers and is available in both liquid and dry formulations. It is widely used as a dispersant, thickener,

binder, antiscalant and for other purposes. Detergents and cleaners, paints, coatings and inks, superabsorbent polymers, and wastewater treatment are the major application segments of the product. It is characterised by good dispersion and fabric softening properties, essential for manufacturing of detergent builders. This polymer is also used in processing of liquid detergents with application in laundry / cleaning of household products.

- **Surfactants:** Surfactants and surface activity are controlling features in many important systems, including emulsification, detergency, foaming, wetting, lubrication, water repellance, waterproofing, spreading and dispersion, and colloid stability. The use of surfactants and polymers to control the stability behaviour of suspensions is of considerable technological importance. Surfactants and polymers are used in the formulation of dyestuffs, paints, paper coatings, agrochemicals, pharmaceuticals, ceramics, printing inks, etc. The industrial functions of surfactants are: 1) detergents for cleansing; 2) foaming agents for shampoos; 3) demulsifiers for oily waste treatment; 4) conditioning agents in skin and hair-care products; 5) antistatic agents for textiles, plastics, paper products, or wax polishes, etc; 6) defoamers / anti-foam agents for paints and coatings; and 7) sanitisers / disinfectants.
- **Silicones:** Silicone technology is helping textile manufacturers to produce functional fabrics and higher-performance textiles. Silicones add functional characteristics to fibre such as to repel water, prevent wrinkles, and increase elasticity and resiliency. Silicone coating used in apparels makes the latter 'breathable' and comfortable. Economical silicone products are used to soften fabrics. Silicones have very good wetting and spreading ability, which is the basis for their use in paints and coatings, personal care products, textiles, oil industry, etc. Silicones have the ability to impart certain feel to skin and hair. Rossari is leader in hydrophilic and hydrophobic amido silicone softeners especially on terry towels and inner wear.
- **Enzymes:** Enzymes are natural protein molecules produced by all living organisms. They function as highly specialised catalysts for accelerating the pace of chemical reactions without themselves undergoing change. Enzymes have become an important component of cleaning products. The primary application of enzymes in cleaning products is in detergents, particularly laundry detergents. Enzyme feed additives act as biocatalysts to assist in the digestion and utilisation of nutrients, thereby allowing animal feed compounders to develop products with unconventional and less expensive formulations. Enzyme treatments provide the following benefits: increased final animal weight, better feed utilisation, healthier digestive systems, more homogenous production, lower death rate, improved eggshell quality, and easier-to-handle waste products. Enzymes are also used in textiles for desiring, fading, bio-polishing and bio-scouring.

HPPC – Journey has just begun!

Rossari manufactures and supplies 300 intermediate products, white label formulations and branded products for soaps and detergents, paints and coatings, ceramics and tiles, and paper industries. It is looking to expand its presence in wastewater treatment, formulations for breweries and dairies, mobile-antibacterial, and specialty chemicals for cement industry.

Table 1: HPPC product portfolio, and proposed plans for expansion

Industry	Product application
Soaps and detergents	<ul style="list-style-type: none"> • Anti re-deposition agent – four variants: Dispa 2050 HN; Detpro 2048 AD; Detpro 2040 CP; and Detpro 2045 HP • Water softener • Stain busters • Detergent cake and others
Paints and coatings	<ul style="list-style-type: none"> • Different types of acrylic emulsions • Different types of additives E.g. Dispersing agent thickeners, defoamers and wetting agents, etc.
Ceramics and tiles	<ul style="list-style-type: none"> • Body binder • Deflocculent • Polishing agent • CMC
Pulp and paper	<ul style="list-style-type: none"> • Acrylic emulsions • Additives E.g. Dispersing agent, DSR, cross linking agent and various products for water treatment
Proposed	
Cement and construction chemicals	<ul style="list-style-type: none"> • Specialty additive for cement processing
Water treatment formulations	<ul style="list-style-type: none"> • Boiler chemicals • Cooling tower chemicals • RO chemical • Wastewater treatment
Specialty formulation for breweries as well as dairies	<ul style="list-style-type: none"> • Hinder bacterial growth • Break molasses • Cleaning sugar syrup
Sanitizers for electronic gadgets	<ul style="list-style-type: none"> • Mobile-antibacterial sanitisers for screens • Non-alcohol sanitisers

Source: RHP

Rossari supplies materials to FMCG companies and has 22 distributors in nine states who help sell HPPC products. Considering that HPPC is the youngest business for Rossari, customer growth in the segment has been healthy: from only 138 customers in FY18, it has grown to 373 in May'20. Customers include marquee names such as HUL, RSPL (*Ghadi* detergent), IFB, Bosch, Panasonic, Amazon and others.

The segment can be further subdivided to better understand growth prospects and margins.

Polymers & intermediates – acrylic polymer based ingredients have opened door for growth in multiple industries

Rossari's success in the laundry segment can be attributed to its strong understanding of textiles and fabrics, and formulations in textile chemicals, which the company is using to service adjacent industries.

Per Frost & Sullivan, Rossari is one of India's leading manufacturers of acrylic polymers, which find varied usage across industries. One usage is in home care, particularly in laundry detergent. Acrylic polymer forms 3-4% of formulations by weight

and is used for its good anti-soil deposition property. As a layer on the surface of a garment, the polymer helps prevent stains from redepositing back on the fabric after they have been removed. It also promotes chelation of heavy metal present in water (sequestering action), which helps to enhance detergency.

Rossari has commercialised a molecule which has superior performance at a substantially lower cost. This helped the company win one of its largest customers and also boosted its HPPC revenues. It has also started supplying polymers to a few small and mid-sized regional detergent manufacturers in India. Rossari aims to sell acrylic polymer based intermediates products to other large FMCG companies as well. Any large customer win would give it a steep jump in revenues for this segment.

Apart from polymers, Rossari also sells enzyme-based products, which is combined with active ingredient in the home care segment, which is 10% of home care market. Company also sells inactive ingredients, focused on silicone as ingredient, which is 32% of the inactive ingredients market in home care and 21% of total personal care ingredients market

The key competition in this business comes from: 1) MNCs such as Wacker AG, Merck, BASF and Croda; and 2) domestic specialty chemical companies such as Galaxy Surfactants, Aarti Industries and Atul Ltd.

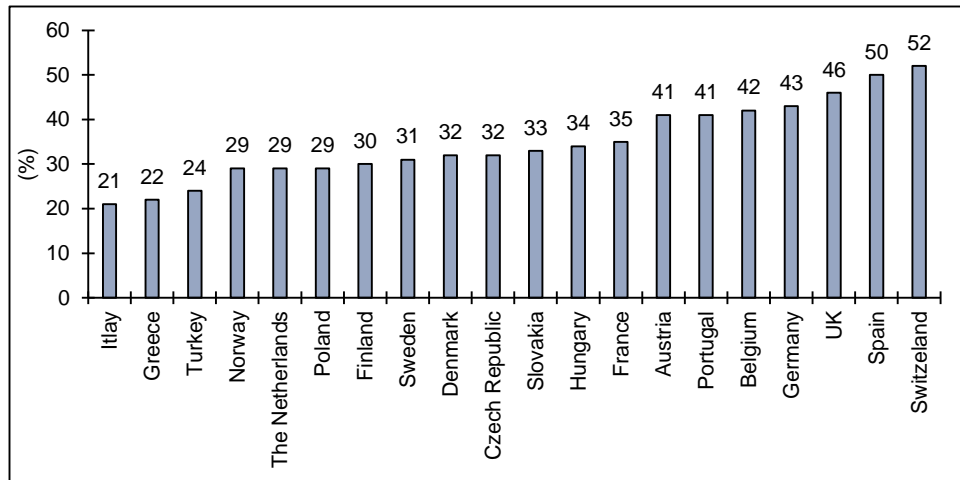
Private label – strong underlying growth

Rossari's core strength lies in formulations. It has expanded its expertise in HPPC category through creating formulations across product categories under white label and are sold under private labels. Initial success came from manufacturing detergents for washing machine OEMs such as IFB, Bosch and Panasonic. Rossari has also started white label products for modern retail and online players such as Amazon and Croma. We see huge scope in the private label segment given the rising modern retail and online business. Within modern retail, private labels are one of most profitable segments.

The private label players need to remain agile in product development and product range so as to gain market share from branded FMCG companies. Rossari, with its strong R&D and manufacturing capabilities, can help the private labels build and update products and keep pace with branded product companies.

Private label penetration in India is less than 1% -- though globally the figure is quite respectable. In the US, private labels penetration is 17-18%, and in Europe it is 20-50%. The rising penetration of modern retail and online sales in India would provide huge impetus for sales to private labels. This strong underlying growth underpins Rossari's expanding addressable market in HPPC segment, and provides visibility of sustained revenue growth in the foreseeable future.

Chart 4: Contribution of private label sales in European countries



Source: Industry reports

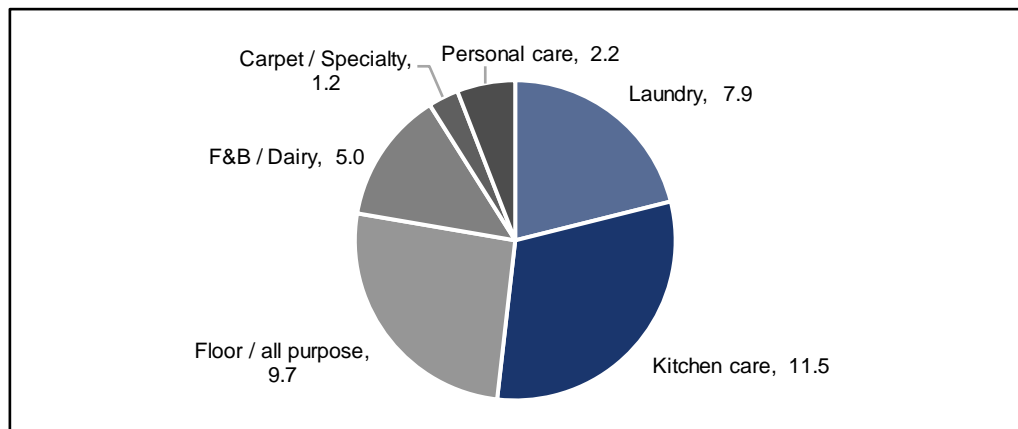
Industrial and institutional cleaning – Buzil partnership helped

Industrial and institutional cleaning are specialised cleaning products for hospitality, airports, corporates, food services, commercial laundry, malls, multiplexes, educational sector, places of worship, etc. In FY14, Rossari formed a JV with BUZIL-WERK Wagner GmbH & Co. KG, a German company which offers solutions for institutional cleaning, hygiene and disinfection. The JV was named *Buzil Rossari Pvt Ltd*, and Rossari had 60% equity stake while Buzil took 40%. In FY21, Rossari bought the entire stake from Buzil to make it a wholly owned subsidiary.

Rossari has entered into a technology license agreement with Buzil for manufacturing specialty chemicals for institutional cleaning, hygiene and disinfection, which are primarily sold to institutional customers. Buzil Rossari is responsible for the marketing and sale of this product amongst customers in India and other SAARC countries.

The institutional cleaning (defined as pack size of 5kg and above) market in India is estimated at Rs20bn; and is likely to grow at a CAGR of 15% to Rs37bn over FY17-FY22, as per industry experts estimates.

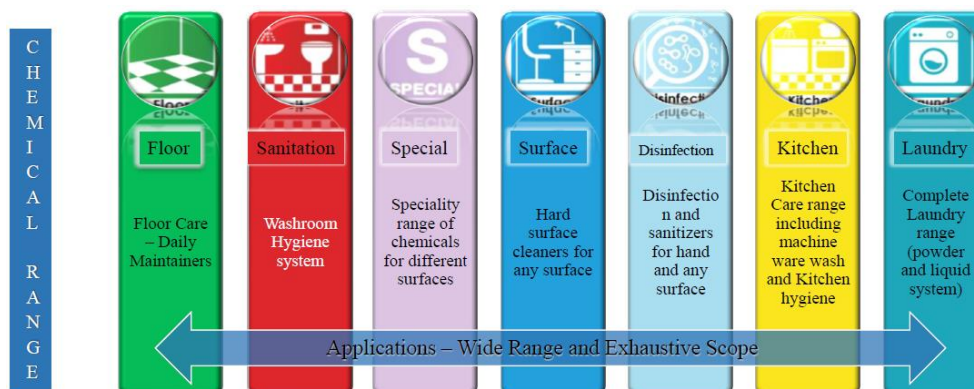
Chart 5: Institutional cleaning market in India by FY22-end (in Rs bn)



Source: I-Sec research, Industry reports

Buzil Rossari has presence across application areas and is well positioned to gain market share. The segment has been growing fast with bagging of large customers like airports and hotel chains. We see institutional cleaning continuing to grow fast though on low base for Rossari. The segmental market in India is dominated by two US-based companies, Diversey and Ecolab.

Chart 6: Buzil Rossari is present across application segments in institutional cleaning



Source: I-Sec research, Company

Cosmetics – New business

Rossari has started manufacturing personal care products (beauty and cosmetics) in its subsidiary, Rossari Personal Care, in which it owns 60% equity stake as per revised shareholding.

Mr. Rupesh Agarwal is responsible for the overall affairs of Rossari Personal Care; and will drive the business, formulate strategies and take business decisions. Mr. Agarwal has worked with HUL for over 17 years across verticals including procurement and R&D. He has strong understanding in personal care category, and the experience should help drive growth for Rossari Personal Care.

Performance chemicals – new capacity expansion should help volumes

Performance chemicals are intermediate products for paint and coating, ceramic and tile, and paper industries. Rossari has plans to enter a few more industries such as wastewater treatment, breweries & dairies, and cement industry. A large part of the product slate is manufactured using acrylic polymers, surfactants and silicones.

- In the paint & coating industry, Rossari products are used to enhance various properties like gloss, binding, flexibility, shine, etc.
- In pulp & paper, Rossari products are used to improve properties such as gloss, water repellency, printability of paper, etc.
- In ceramic & tile industry, Rossari products are used for increasing strength and gloss of tiles.
- Company offers the entire product range for wastewater treatment.

- In the cement industry, performance chemicals help to increase the productivity and bending strength of cement.

Rossari was constrained on the capacity front in past two years. The focus was to drive growth in home and personal care industry. However, with increased capacity from operationalisation of the Dahej facility, the company now aims to drive faster growth in performance chemicals. We understand it has done product seeding in these industries and the response for products has been encouraging.

Exports – untapped opportunity

Rossari does not have meaningful presence in the export market for HPPCs. However, considering the China situation, the company is seeing emerging opportunities in exports as well. It wishes to expand its currently negligible export business for detergent additives including enzymes. It also sees opportunity to expand products sold under private labels, or in partnership with digital market platforms such as Amazon in foreign countries. Galaxy Surfactants and Fine Organics have grown in the international markets helped by MNCs with whom they build strong relationships in India. Galaxy sells its products across the globe for Unilever, Colgate and many other FMCG companies, and Rossari plans to follow same path.

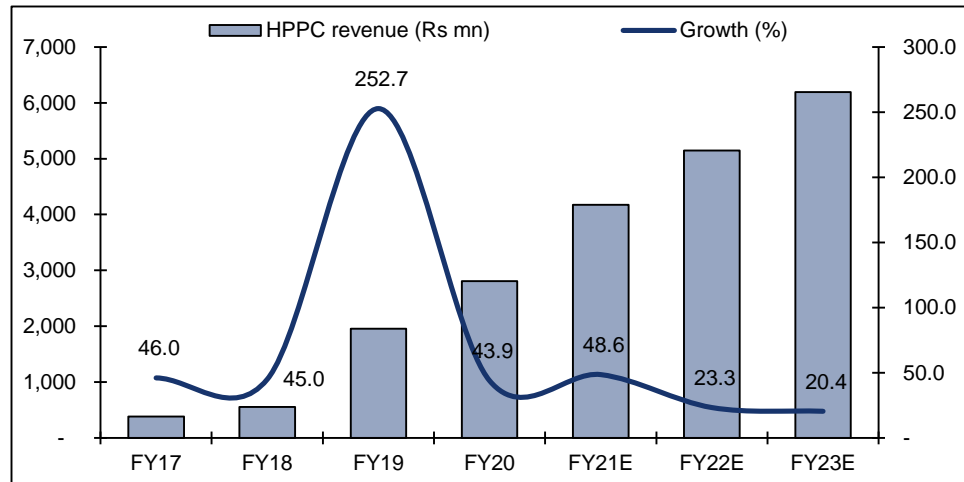
Revenue growth at 30.2% CAGR in HPPC over FY20-FY23E

The journey for Rossari in the HPPC business has just begun, and it has not even scratched the surface. The addressable market in India for home care ingredients is US\$1.6bn and personal care ingredients US\$0.8bn. Rossari is also planning to venture into the construction chemical market and water treatment formulation market, for which the addressable market sizes are US\$1.1bn and US\$1.7bn respectively.

Management is confident the segment will continue to have strong revenue growth driven on low base, capacity expansion, new customer wins and entry into new categories. We concur with the management considering its early success – and growth in the number of customers underpins the confidence. We see significant growth coming from detergent additives and performance chemicals. Growth in private label and Buzil Rossari will be steady and gradual. Further, HPPC business has been significantly boosted with rise in cleaning and hygiene awareness, and use of sanitisers to fight Covid. Accordingly, we see HPPC revenues growing at a CAGR of 30.2% over FY20-FY23E. This is in comparison to the HPPC revenue CAGR of 125% in past two years, which benefited from steep jump in revenues from one large customer win. Such wins in the future are difficult to predict, but we don't rule them out.

Though the management does not provide details about segmental margins we estimate Buzil Rossari to have the highest gross margin of over 50% followed by the private label segment. Detergent additive and performance chemicals will have relatively lower gross margin in the HPPC category.

Chart 7: Revenues to grow at 30.2% CAGR in HPPC over FY20-FY23E



Source: I-Sec research, Company

Textile chemicals – solidifying leadership

Rossari is the largest textile specialty chemicals manufacturer in India as per F&S report. It provides specialty chemicals for the entire value-chain of the textile industry starting from products for fibre, yarn dyeing, production of manmade fibre, thread production, digital printing, fabric processing, dyeing auxiliaries, finishing range, garment finishing to products for printing, denim and knits made of various fibres. It has a portfolio of 1,543 products. Rossari has differentiated by focusing on supply of value-added specialty chemicals to enhance hydrophilic properties, antimicrobial properties, flame-retardant properties, fragrance, water repellents and UV absorbing properties of the textiles.

Table 2: Textile segment products

Stage	Products application
Yarn production	<ul style="list-style-type: none"> • Yarn dyeing and finishing • Yarn lubricants • Performance enhancers
Man-made fibre production	<ul style="list-style-type: none"> • Lubricants • Water based and non-water based • Antistats • Antimicrobial
Thread production	<ul style="list-style-type: none"> • High performance thread lubricants • Water based and non-water based • Thread finishing
Digital printing	<ul style="list-style-type: none"> • Performance enhancers and base treatment for digital printing technology
Fabric processing	<ul style="list-style-type: none"> • Pre-treatment of cellulose • Comprehensive pre-treatment range of products based on complex combination of chemistry of wetting, sequestering and dispersant sustainable chemistry focus
Dyeing auxiliaries	<ul style="list-style-type: none"> • Full range of products based on dispersant, chelating agents and levelling agents
Finishing range	<ul style="list-style-type: none"> • Comprehensive pre-treatment range of products based on complex combination of polymer science and nano technology • Performance products • Enzymes and biochemical finishing range
Garment finishing	<ul style="list-style-type: none"> • Comprehensive pre-treatment range of products based on complex combination of polymer science and nano technology • Performance products • Enzymes and biochemical finishing range
Printing	<ul style="list-style-type: none"> • Comprehensive range of products based on complex combination of polymer science and nano technology • Performance products • Enzymes and biochemical printing range

Source: RHP

Textile chemicals is fragmented industry

Textile specialty chemical industry in India is fragmented with more than 500 large and small players in addition to over 800 blenders and resellers. Such fragmentation is due to the highly unorganised and price-sensitive textile market. It is also attributable to weak enforcement of environmental norms for smaller players and concessions provided by the government to them.

However, with rising sale of branded products and increase in garment exports, the industry is gradually shifting towards an organised structure. Further, Covid has hit hard the small players in both textile and textile chemical industries and benefited the larger well capitalised players. Rossari's competitors in the organised textile chemical market are Archroma, CHT, Rudolf, Croda international, Huntsman Corp, Fineotex Chemical, Resil Chemicals, Sarex Chemicals Dai-ichi Karkaria, Britacel Silicones, and Indokem Ltd.

Rossari has strong distribution network and relationships built over time

Rossari’s customer base increased from 387 in FY18 to 481 in May’20. It primarily sells products through 109 distributors spread over 13 states in India and 19 overseas distributors across 16 countries including the US, Portugal, the UAE, Vietnam, Sri Lanka, South Korea, Mexico and Turkey. It has four regional branch offices located in Delhi, Ludhiana, Ahmedabad and Surat for marketing. Surat also has a R&D support laboratory, which provides localised and expedient technical support to customers.

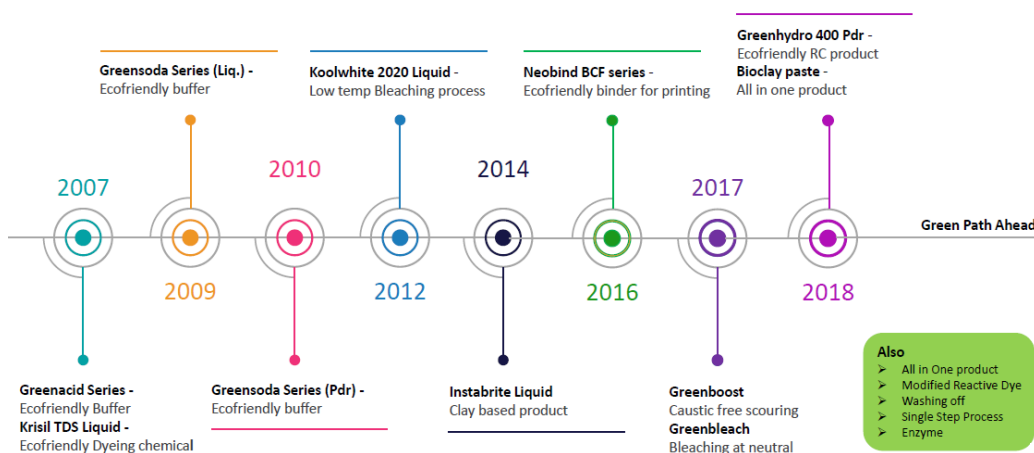
Environment and sustainability is big theme in textile chemicals

Textile processing is a highly water-intensive operation and various chemicals (e.g. starch, dye-stuffs, auxiliaries, alkalis, acids, detergents, etc.) that are used in the processing contaminate water and cause pollution in terms of BOD, COD, pH, TDS, colour, hardness, etc. in the discharged effluent. Stringent effluent norms are being implemented on basis of characteristics of the discharged effluent. This has led to a rising demand for chemicals or auxiliaries that can reduce the pollution load of the effluent in the textile manufacturing industry. The two key pollutants are acetic acid and soda ash, which are used heavily in textile processing.

Rossari started with *Greenacid* series, which replaced acetic acid in textile processing – and this was one of the key products that earned significant goodwill for the company. Rossari still has dominant market share in fresh acid used in textile processing. However, a large number of unorganised players take used acids for the process. As the industry is becoming more organised, the company sees use of green acid increasing. Rossari has expanded into Greensoda, Koolwhite 2020 liquid (a low-temperature bleaching process). The product portfolio also includes Greenboost, Greenhydro, Greensalt, Greensilicate etc.

Per F&S, the global green chemicals market is expected to grow at a CAGR of 10.5% during 2019-23. Green products contributed 18% of revenues in FY19 for Rossari and the company aims to increase sustainable product revenues to >40% in the coming years. Accordingly, Rossari is focusing on providing eco-friendly sustainable chemical solutions to either replace the highly polluting chemicals being used, or reduce the impact of environmental pollution by suitably modifying the overall industrial process. At the same time, the company wants sustainable products to be cost-neutral.

Chart 8: Rossari’s evolution in green products



Source: I-Sec research, Company

Customisation and technical support

Rossari has a strong sales team, which is technically knowledgeable and understands the specific requirements of customers in textile industry. It is backed by a strong, innovative and technically robust R&D team, which provides the right solutions with speed and efficiency based on consultations with the marketing team. We understand 40% of the company's textile chemical revenues comes from customised products based on technical feedback, which helps better customer engagement.

Notably, textile chemicals, particularly finishing products see significant changes based on fashion and is a very dynamic industry. Rossari not only engages with textile manufacturers, but also involves apparel brands with changing trends, innovation and sustainability who can influence textile manufacturers to use Rossari products.

Rossari has started expansion in international market

China is the largest textile chemical manufacturer while the textile industry is fast moving to new locations like Bangladesh and Vietnam. Considering China's situation, Rossari sees exports as one of key focus area in textile chemicals. It already supplies textile chemicals to 19 countries, but still does not have any meaningful global presence as exports contribute only 11% of total revenues for Rossari.

Company has set up a separate team for exports to bring focus on expanding operations in international markets, create a distribution network and channel partners across geographies and build capabilities. It is reaching out to international brands for product adoption and brand nomination, and has also entered into co-branding arrangements with such companies. Collaboration will be the primary focus in the US, countries in Latin America and the Middle East including Egypt, Tunisia and Turkey, which have established textile manufacturing hubs.

Rossari has opened own offices in Bangladesh and Vietnam, which are emerging strong textile hubs. The textile specialty chemical market in Vietnam is expected to grow at a CAGR of 16% from CY16 to CY25 and that in Bangladesh at a CAGR of 8% from CY18 to CY24 (*Source: F&S report*). It has hired local people from textile chemical MNCs, who therefore understand these markets well.

Filling product gaps in textile chemicals

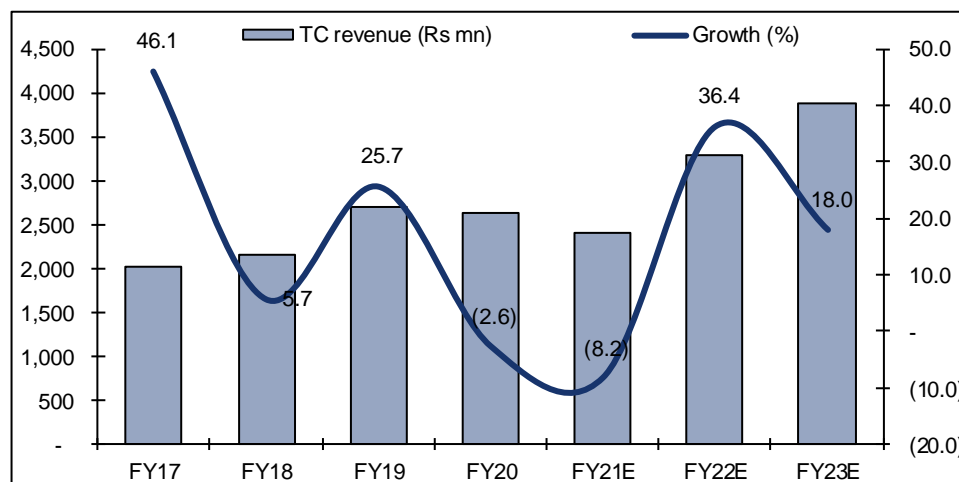
Rossari has product gaps in spin finishing, textile sizing and technical textiles. It has launched a few products in spin finishing and is seeing good response from customers. Company has also been open to explore international partners for some of the textile chemicals in these categories. It is also working towards launch of products in anti-microbial and electromagnetic protection range.

We estimate textile chemical revenues to grow at CAGR 13.9% over FY20-CY23E

The addressable market size for India textile specialty chemicals is US\$1.2bn and is expected to grow at a CAGR of 12.0% from CY18 to CY23 (*Source: F&S report*). Covid has significantly dented near-term growth for textile chemicals, but we see this as a harbinger of change in the industry structure in favour of organised players as smaller players have been worst hit.

We forecast Rossari’s textile chemical revenues to grow at a CAGR of 13.9% over FY20-FY23E driven by strong underlying growth for organised textile chemical manufacturers, market share gain for Rossari and incremental revenues from exports. Revenue will also benefit from higher growth in sustainable products segment where Rossari is a strong player.

Chart 9: We expect 13.9% CAGR in textile chemical revenues over FY20-FY23E



Source: I-Sec research, Company

Animal health and nutrition – Good option value!

Rossari supplies poultry feed supplements and additives, pet grooming and pet treats including for weaning, infants and adult pets, and currently manufactures over 100 products in this segment. It has a wide range of poultry feed additives from enzymes to vitamin premixes, trace minerals, acidifiers, disinfectants, etc. It forayed into pet grooming with acquisition of the *Lozalo* brand in FY19.

Table 3: Rossari presence in animal health and nutrition (AHN) space

Industry	Product application
Poultry feed	<ul style="list-style-type: none"> • Enzymes • Vitamin premix • Trace minerals • Toxin binders • Acidifiers • Liquid essential oil • Liquid acidifiers • Disinfectants • Anticocci and AGP
Pet grooming	<ul style="list-style-type: none"> • <i>Lozalo</i> shampoo for dogs, cats and horse
Pet treats	<ul style="list-style-type: none"> • Dog and cat treats (chicken, meat, fish, milk, carrot, paneer)

Source: Company data

Rossari’s customer base in AHN segment has grown to 150 in FY20 from 68 in FY18. It supplies poultry feed through the direct sales model, but pet grooming and treat to retail stores through 37 distributors.

Pet grooming and treats – huge option value

Rossari acquired Lozalo International from Dr. Rajesh Kamble in FY19. Lozalo operates in the lucrative and fast-growing market of pet grooming including products such as shampoos and conditioners for dog, cat and horse. It has also forayed into pet treat category with packed food for dog and cat. This is a branded business with huge potential to grow over the next decade; however, unlike Rossari’s other businesses which are mostly B2B, this is B2C and requires a different mindset. Branding will play a key role in this segment. Further, Rossari’s large competitors are MNCs with global presence. This sub-category contributed very little to sales in FY20; nevertheless, if the company is able to turnaround the segment, we see huge value for this business in the future.

Chart 10: Pet grooming products under brand *Lozalo*



Source: I-Sec research, Company

Exports – focus on Asian and African markets

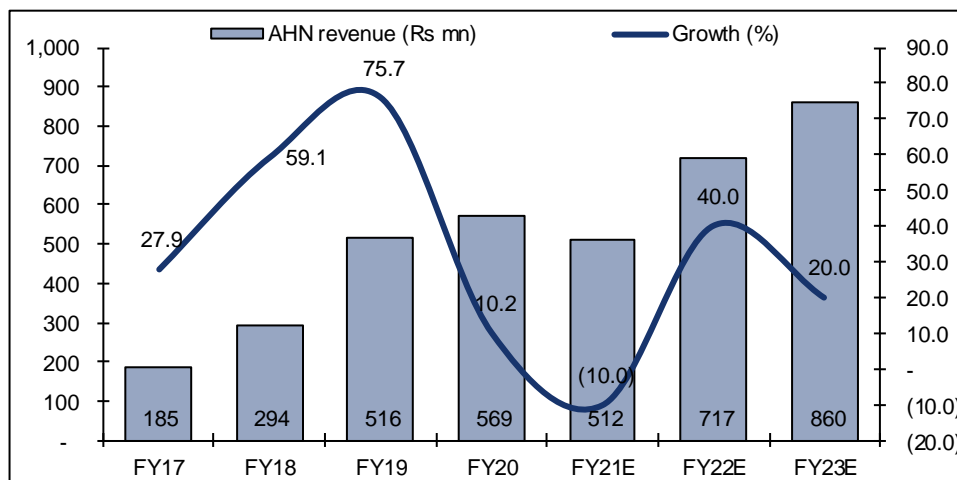
Rossari has negligible presence in international market for its AHN products. However, it has started statutory registrations (with many products already registered) in many countries including Nepal, Bangladesh, Myanmar, Vietnam, Philippines, Egypt, Kenya, Nigeria and Mauritius either itself or through its distributors. They have started participating in many exhibitions in these countries to understand the market requirements.

We see AHN revenue growth at CAGR 14.8% over FY20-FY23E

Rossari’s presence in AHN products is largely in poultry and pets. These segments account for ~55% of the total AHN market. The addressable market for Indian AHN products is US\$0.14bn. Rossari is also in the process of expanding into feed additives for aquaculture (fastest-growing end-use industry), which should expand its addressable market.

We estimate Rossari’s AHN business to grow at a CAGR 14.8% over FY20-FY23E mostly driven by poultry feed additive segment; pet grooming and pet treat would also grow rapidly, but will still have a very small base.

Chart 11: We see AHN revenue growth at 14.8% CAGR over FY20-FY22E



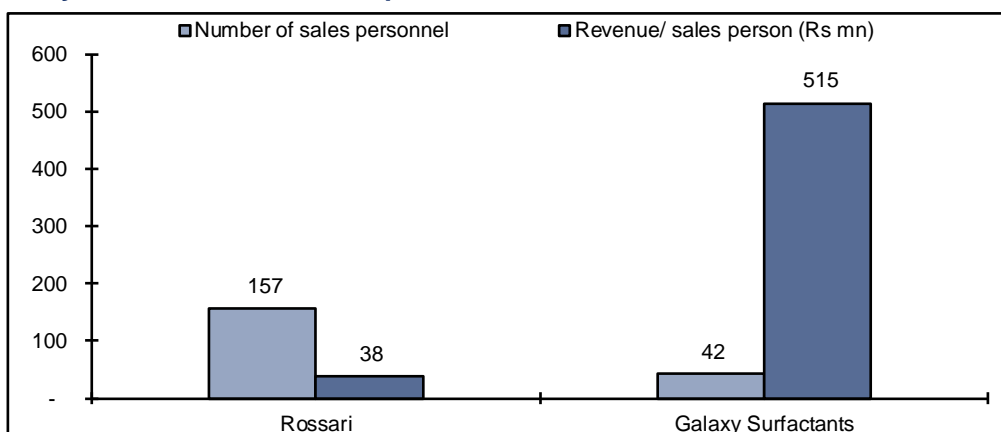
Source: I-Sec research, Company

Key investment thesis

Formulations and applications are key strengths; sales-driven organisational culture too is an advantage

Rossari is a sales-focused organisation unlike other specialty chemical companies, which are focused on manufacturing. Rossari's product innovation, formulations and applications are derived from customers' need or problem solving. Further, to achieve its goals, company needs to be close to customers; it therefore has one of largest sale forces (defined as revenue per sales person, which is lowest among peers). All sales personnel are with technical background so they can solve problems individually. If the requirement is critical, these sales personnel can take help of R&D to solve customers' requirement.

Chart 12: Rossari has much higher sales personnel and very low revenue per sales person as it focuses on personalisation and customisation of solutions – a key differentiator vis-à-vis peers



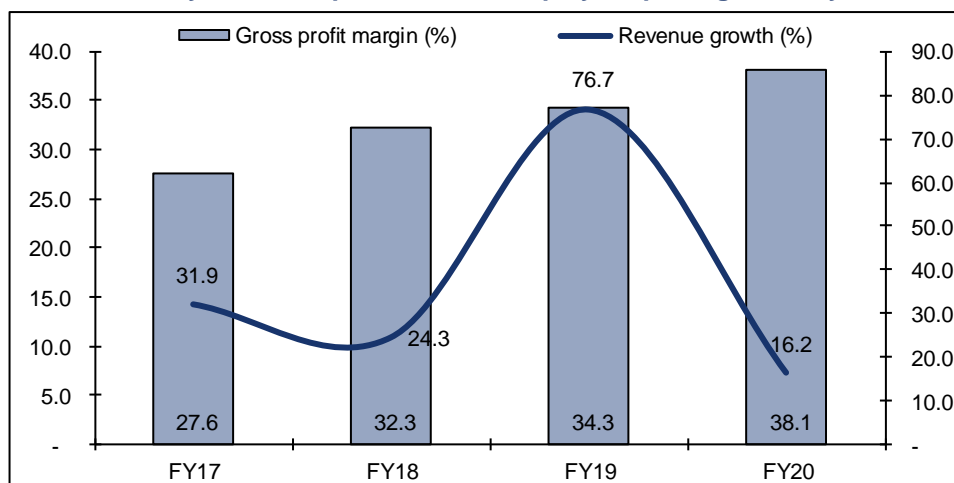
Source: I-Sec research, Company. Galaxy numbers are from its RHP, FY18

The key differentiators of Rossari vs competition (mostly MNCs) are agility and customisation with much lower Minimum order quantity (MOQ). Textile and fashion changes each year and textile chemical companies need to evolve in tandem with the changes. Rossari's agility helps it grab higher incremental market share. We understand 40% of the company's sales in textile chemicals is from customised products. The other reason for success in textiles was faster adoption of ecofriendly sustainable chemicals, which again came from proximity to customers.

Company has also successfully diversified into HPPC and ANH businesses and has seen some early success, which again can be credited to its agility and problem-solving capabilities.

Further, Rossari does not compete on offering lowest priced products; rather its focus is on total value delivered. That is the key reason why the company was able to expand revenues at higher gross profit margins.

Chart 13: Rossari has driven revenue growth and gross profit margin expansion simultaneously, which implies it does not play on pricing as a key differentiator



Source: I-Sec research, Company

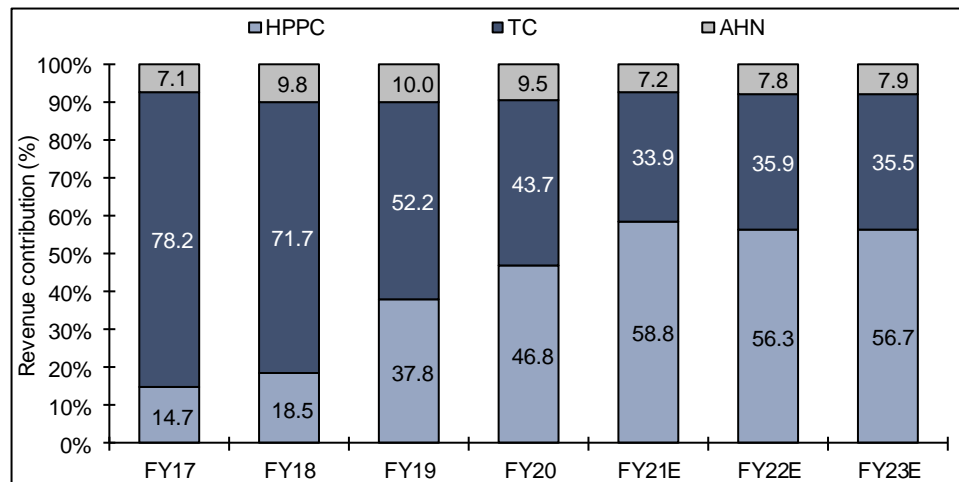
Diversification to drive growth for multiple years

As discussed above, Rossari aims to grow across diverse customer segments by focusing on innovation and customisation of solutions. Its ability to customise products for various applications at a short notice is helping it diversify across different customer segments.

Currently, the company is serving customers in textile, apparel, soap and detergent, paint, ink and coating, ceramic and tile, water treatment chemical, and pulp and paper industries. It is in advanced stages of expanding home, personal care and performance chemicals product portfolio to water treatment formulations, and specialty formulations for breweries and dairies. Further, it plans to introduce new formulations including special formulations for mobile-antibacterial for screens and non-alcoholic sanitisers. It also plans to introduce technologies in newer markets of spin finish, technical textile and textile sizing. In addition, Rossari is looking to expand its product portfolio in the pet food sub-segment.

Company has a huge pipeline of products and industries which it plans to expand in the next few years; this should help it continue growing at a fast pace.

Chart 14: HPPC contribution expected to structurally increase; but within HPPC, performance chemical contribution likely to rise on new product launches



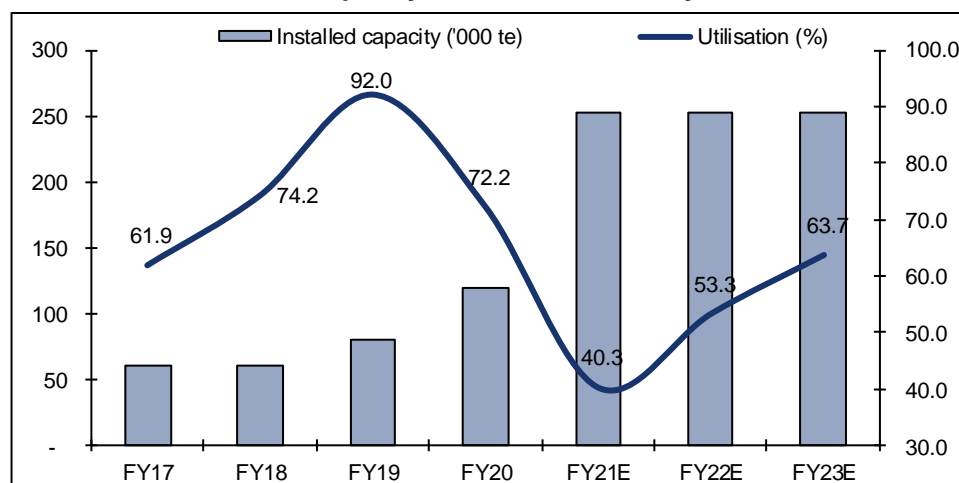
Source: I-Sec research, Company

Doubling of manufacturing capacity provides revenue growth visibility for next 3-4 years

Rossari has installed capacity of 120ktpa at Silvassa, of which 20ktpa was added in FY20. This plant has flexible manufacturing capabilities for powders, granules and liquids. Further, it can interchange capacities across HPPCs, textile specialty chemicals, and AHN products categories, which ensures it can manufacture any of these products at any point of time depending on the specific requirements of customers. This facility also has a comprehensive range of testing and packaging capabilities. Further, the Silvassa plant is zero liquid discharge facility.

Company is in the process of setting up greenfield facility at Dahej in Gujarat with a proposed installed capacity of 132.5ktpa. The proposed facility will be state-of-the-art and will be commissioned by FY21-end. A significant new capacity would be for manufacturing acrylic polymer based products, which has already commenced manufacturing (phase-1) in Q2FY21.

Chart 15: We estimate capacity utilisation at 64% by FY23E



Source: I-Sec research, Company

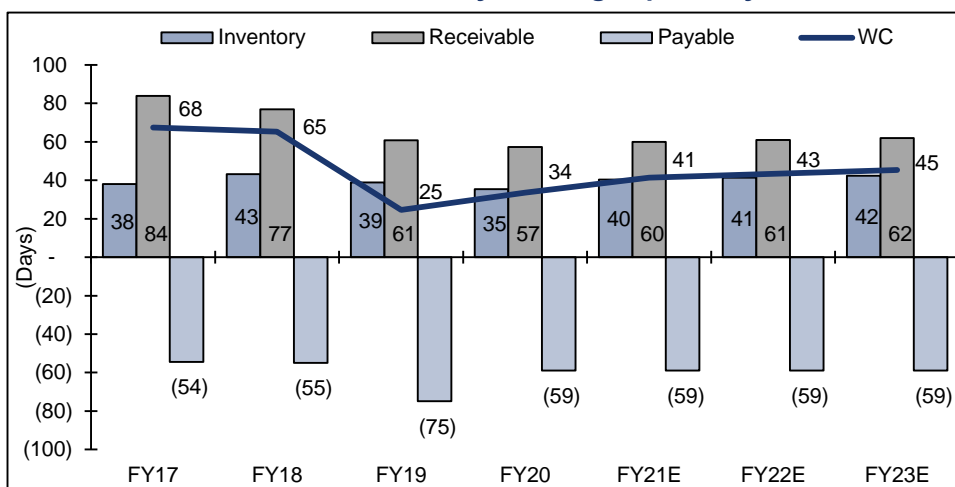
Robust FCF generation; and strong working capital management

Rossari’s FCF generation would be aided by its strong EBITDA growth, which indeed is benefiting from revenue growth and operating leverage. Revenues are expected to grow at a CAGR of 22% over FY20-FY23E on commissioning of the new facility at Dahej, and aggressive expansion into performance chemicals (within the HPPC category). This should drive EBITDA growth at 25.5% CAGR during the same period.

The majority of capex for commissioning the new facility should be complete by FY21. Over the subsequent few years, capex would be limited to maintenance and debottlenecking. Company has kept a very tight lid on working capital, which remains its core strength for FCF. It has reduced inventory days to 35 in FY20 from 89 in FY14 on reducing dependence on imported raw materials. It has recently signed an MoU with BPCL to procure acrylic acid from BPCL’s Kochi facility, which should further cut its imports. Rossari’s collection days averaged 65 over FY14-FY20, and payable days at 60, which are in line with the industry. It is among the best chemical companies on working capital days at just 34, which further provides impetus to capital efficiency. However, we have factored-in a gradual increase in working capital days to 45 by FY23E on the assumption that it may make further investment to drive higher revenues in new industries.

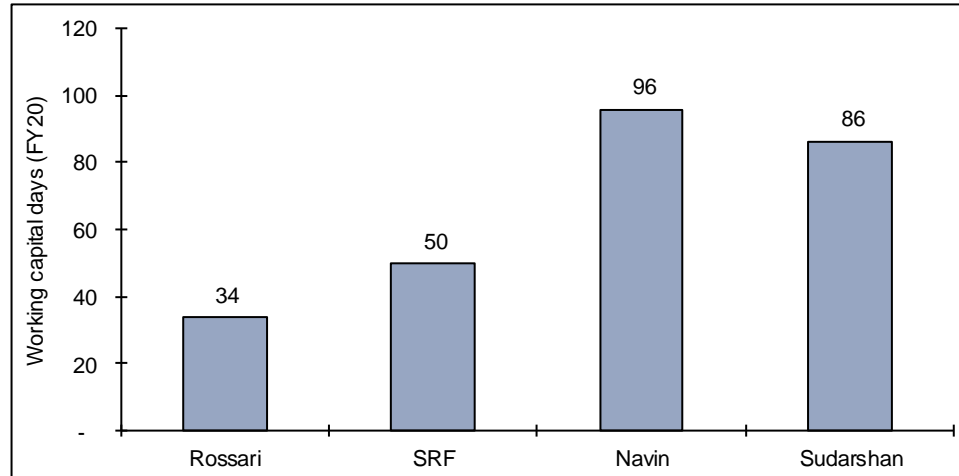
We expect the company to generate FCF of Rs876mn in FY23E, which would be 8% of revenues, and is the highest among our coverage specialty chemical companies.

Chart 16: Rossari to maintain steady working capital days...



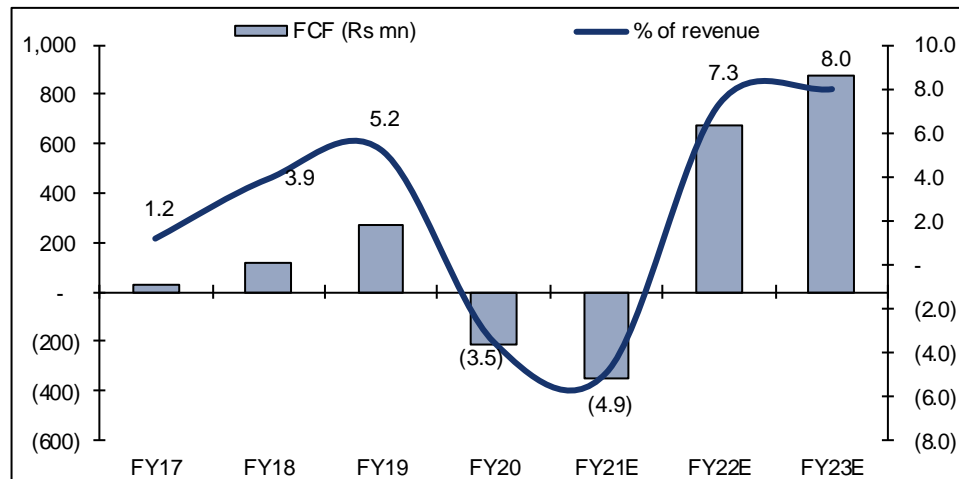
Source: I-Sec research, Company

Chart 17: ...which is the best among peers



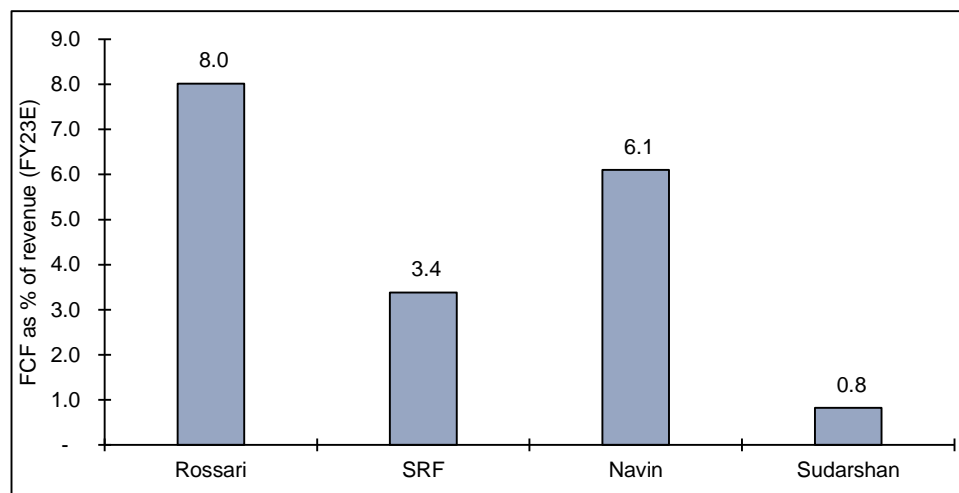
Source: I-Sec research, Company

Chart 18: Completion of capex and steady working capital days will ensure strong FCF generation for Rossari...



Source: I-Sec research, Company

Chart 19: ...which (FCF as % of revenues) again is the best among peers

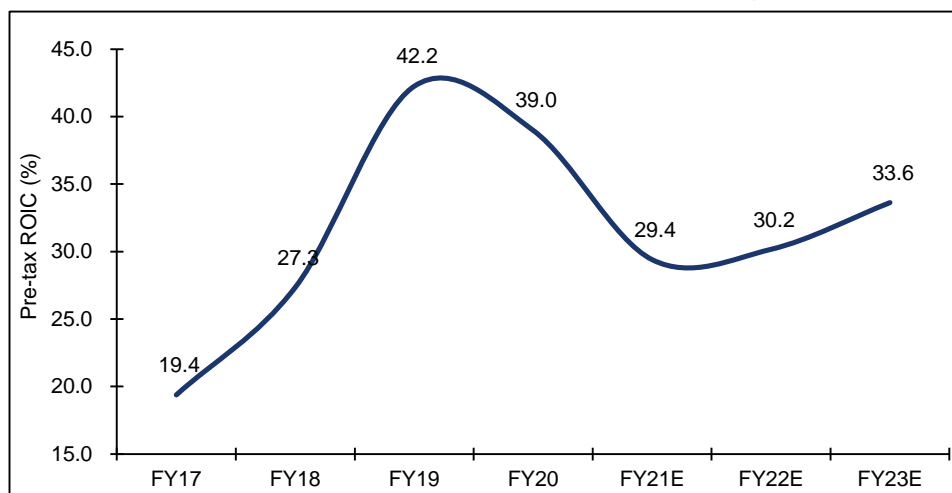


Source: I-Sec research, Company

Best return ratios among specialty peers

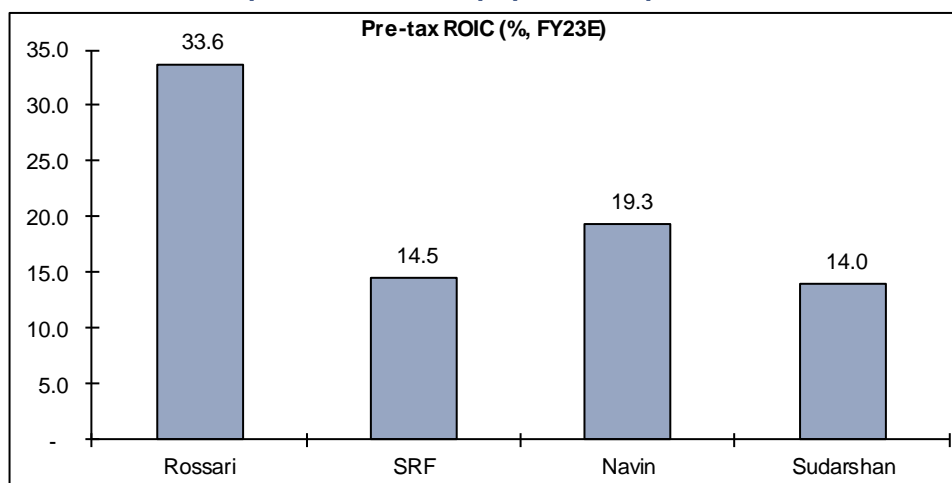
Rossari business model is focused at customisation, application and lower thrust on complex manufacturing process. Thus, it requires much lower investments in plants and machinery (or higher asset turnover). Disciplined working capital management has helped the company run its business with utmost capital efficiency. However, in FY21E, we expect RoIC to dip on significant investment though eventually higher asset turnover and rise in profit will take pre-tax RoIC to 33.6% in FY23E. The reported RoCE and RoE would optically look lower due to higher net cash balance of Rs1.9bn by end-FY23E. Notably, Rossari’s RoIC is in the top quartile in our specialty chemicals coverage universe.

Chart 20: Rossari’s unique business model commands good return ratios...



Source: I-Sec research, Company

Chart 21: ...which places it in the top quartile of peers



Source: I-Sec research, Company

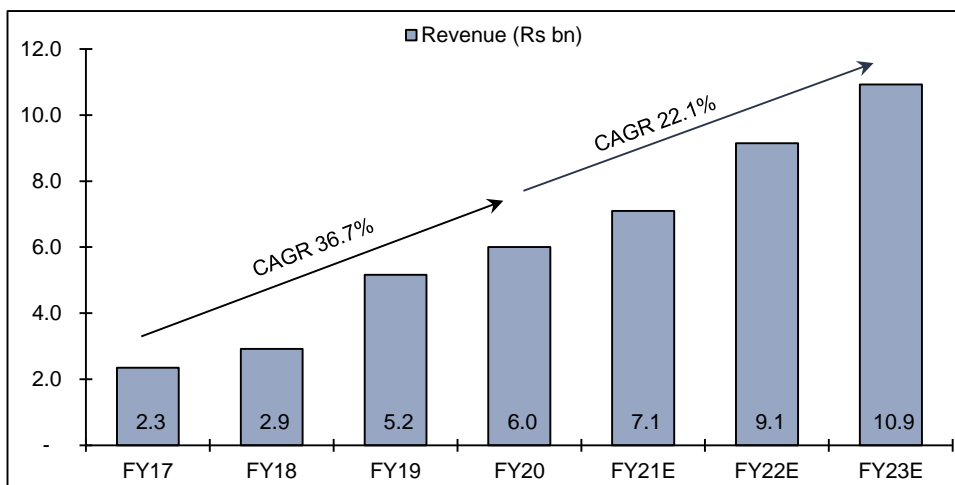
Strong balance sheet ensures enough space to pursue inorganic opportunities

Rossari has expressed an intent for inorganic growth given its strong balance sheet. The acquisition/s would be aimed at either filling product portfolio gap/s, expanding reach, backward integration, or access to technology. In its Q3FY21 earnings call, the management highlighted it is very close to announcing an acquisition. This should help drive growth much faster in the coming years. We would view it as a positive if the acquisition comes in the personal care portfolio or export markets, where the opportunity is huge.

Though acquisitions are aimed to accelerate growth, they come with multiple risks, considering very high valuations in specialty chemicals and organisational ability to absorb a new company. We would look at acquisition independently as it comes. Further, we don't see many companies that currently have Rossari's return ratio profile – and an acquisition, if not value-accretive, may drag RoIC down by a few points, in our view.

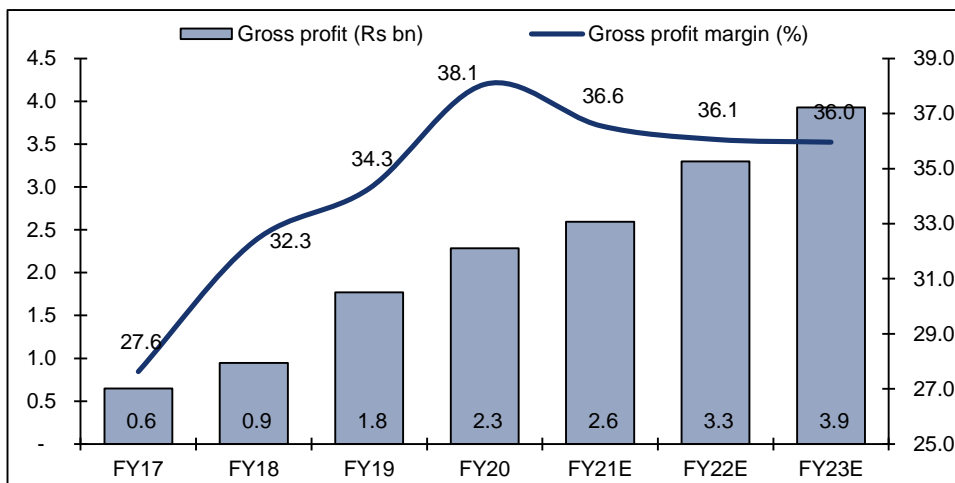
Financial highlights

Chart 22: Rossari revenues are likely to grow at 22.1% CAGR over FY20-FY23E on ramp-up in new capacity. This would be significantly driven by HPPC biz



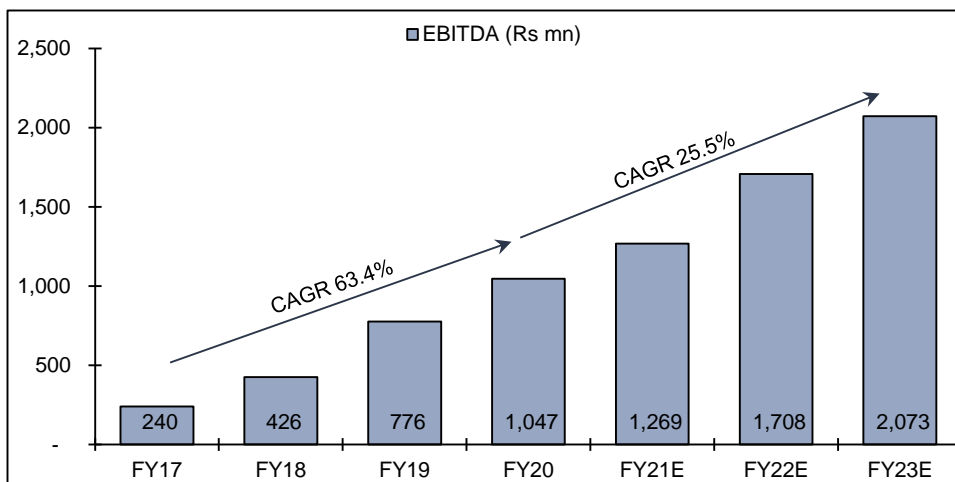
Source: I-Sec research, Company

Chart 23: Gross margins are expected to slightly shrink on higher revenue contribution from performance chemicals within HPPC segment, which has slightly lower margins in our view



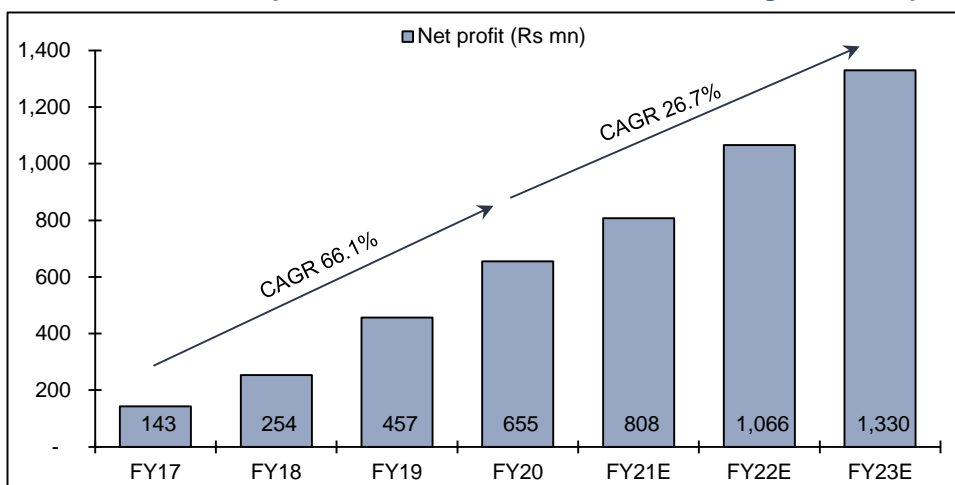
Source: I-Sec research, Company

Chart 24: We estimate EBITDA to grow at 25.5% CAGR over FY20-FY23E...



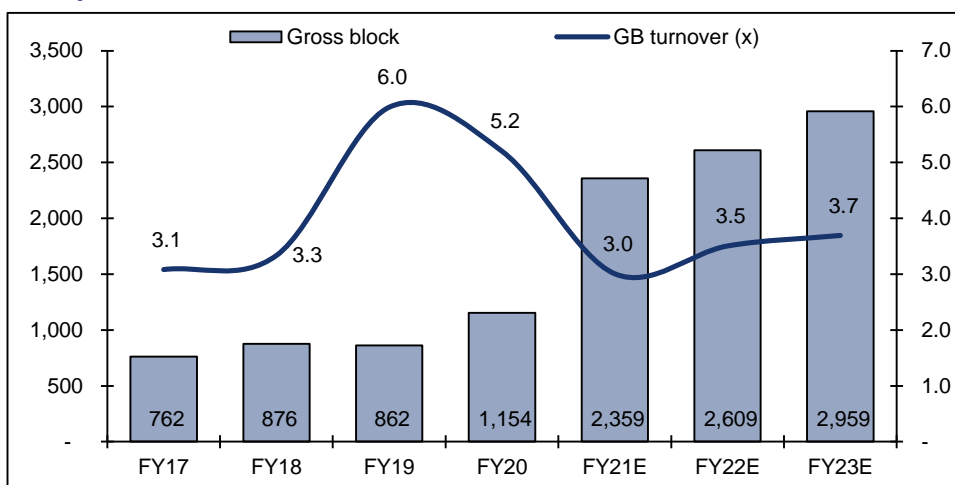
Source: I-Sec research, Company

Chart 25: ... and net profit to increase at 26.7% CAGR during the same period



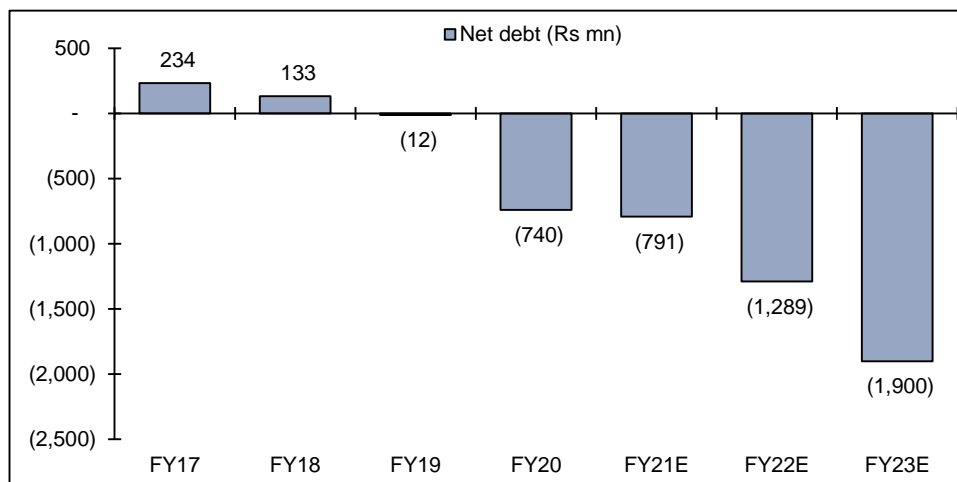
Source: I-Sec research, Company

Chart 26: We expect gross block turnover to dip (on new large capacity addition) from peak of 6x



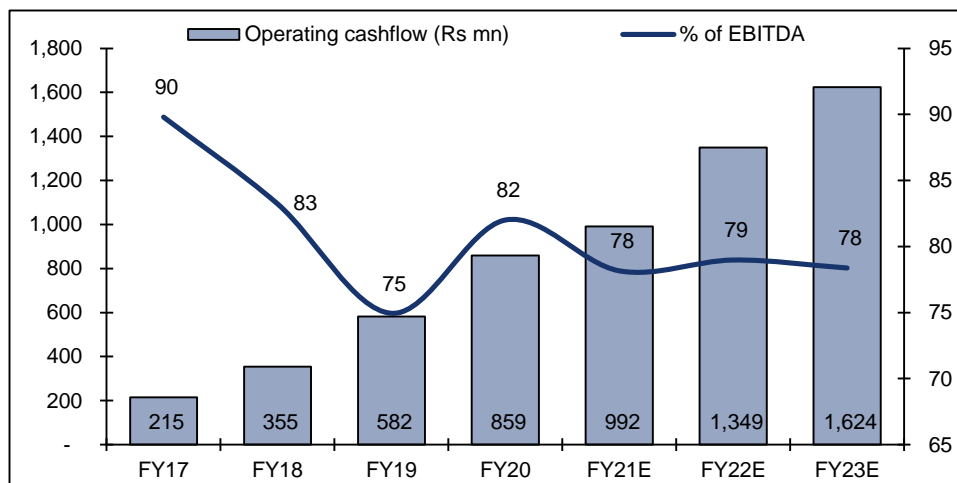
Source: I-Sec research, Company

Chart 27: Company has maintained a disciplined balance sheet even during hyper growth phase in past four years



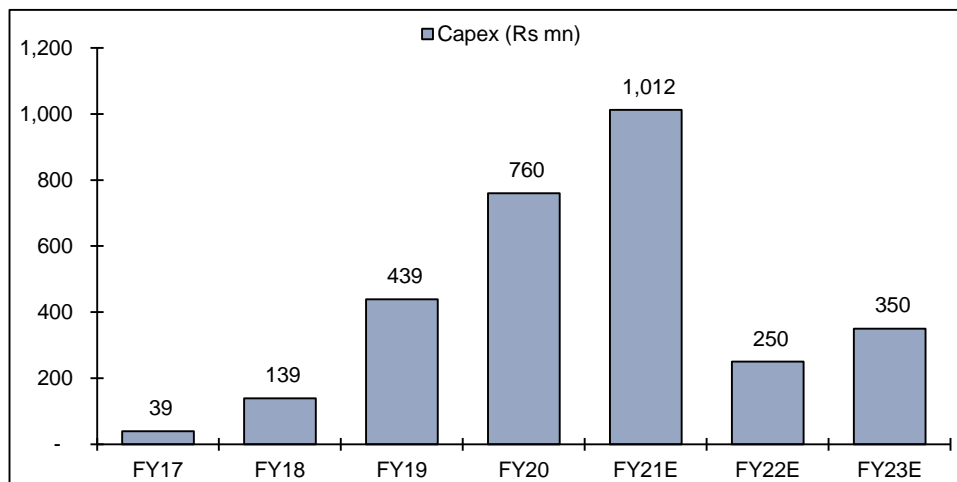
Source: I-Sec research, Company

Chart 28: Operating cashflow as % of EBITDA has always been healthy



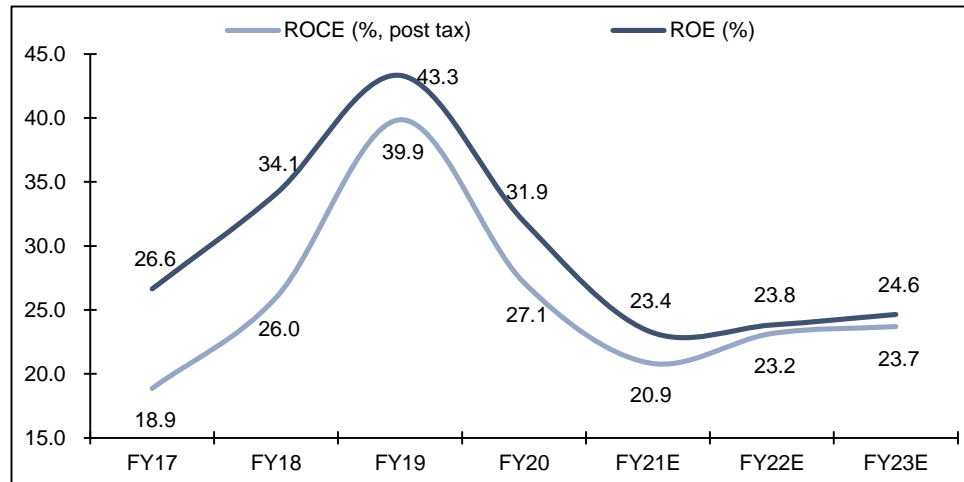
Source: I-Sec research, Company

Chart 29: Capex is likely to normalise from FY22E on commissioning of greenfield facility at Dahej



Source: I-Sec research, Company

Chart 30: RoCE and RoE are optically lower due to huge cash on balance sheet



Source: I-Sec research, Company

Valuations – Initiate on Rossari with HOLD rating

We initiate coverage on Rossari Biotech (Rossari) with a **HOLD** rating on a DCF-based valuation of Rs1,020. Our estimate includes EBITDA CAGR of 15% over FY20-FY30E, which is reasonable considering low base, large opportunity and significant upfront capex. We have assumed WACC of 10%, and terminal growth of 6%. However, we see upside risk from deployment of cash in inorganic growth, which is not captured in our estimates.

Unique business model...

- Rossari has expertise in working on four chemistries: 1) acrylic polymer, 2) surfactants, 3) silicone, and 4) enzymes. The core competency in four chemistries came from their extensive use in textile chemicals, and it expanded successfully into new industries with certain modifications, which we think is commendable.
- Company has always focused on formulations and problem solutions as its differentiator, and did not backward-integrate keeping the business asset-light. It mostly does polymerisation of acrylic acid and mixing and blending for final products. It buys base raw materials from bulk chemical manufacturers efficiently due to its relationship with, and sourcing on behalf of HUL.
- The promoters are also good at identifying talent and inducted a business leader for each segment, who are responsible for segmental P&L; promoters supervise the entire operations.
- Company has strict working capital discipline and has historically seen negligible bad debts and overdues. It works with long-term partner distributors who are with the company for past >10 years.
- Exports is an unexplored opportunity for the company and it has invested significantly in people in a few large markets (particularly for textile chemicals) such as Bangladesh and Vietnam; and expects to ramp-up sales in those markets over the next decade.
- Company is among best specialty chemical companies based on working capital management and RoIC.

...then why HOLD?

Though we appreciate the business model, the stock is richly valued at 4.6x FY23E sales (P/S) and 38x FY23E EPS (P/E), which leaves little margin of safety.

Table 4: Peer snapshot

Company	Price (Rs)	MCap (Rs bn)	PE(x)		2-years EPS CAGR (%)	ROE (%)	PS(x)		2-years Sales CAGR (%)
			FY22E	FY23E			FY22E	FY23E	
SRF	5,404	320	24.2	20.0	20.9	18.8	3.2	2.7	21.1
Navin Fluorine	2,572	127	42.1	33.0	26.6	19.9	9.3	6.5	30.0
Galaxy Surfactants	2,360	84	26.6	22.8	13.0	22.0	2.7	2.5	11.9
Surdarshan Chemical	537	37	22.2	19.9	22.0	21.8	1.7	1.6	13.5
EPL Ltd	228	72	22.5	19.8	15.5	19.5	2.2	2.0	7.4
Median			24.2	20.0		19.9	2.7	2.5	13.5
Rossari Biotech	976	51	47.6	38.1	28.3	24.6	5.5	4.6	24.1

Company	Inventory days	Receivable days	Payable days	WC days	Asset turnover (FY23E)			ROIC (%)	FCF/sales (%)	FCF/EV (%)
					Asset	Sales	Turnover (x)			
SRF	57	45	57	45	1,27,949	1,16,764	0.9	14.5	3.4	1.1
Navin Fluorine	50	74	36	88	21,021	19,721	0.9	19.3	6.1	1.0
Galaxy Surfactants	46	62	38	69	19,261	34,066	1.8	22.6	6.9	2.9
Surdarshan Chemical	89	83	84	88	22,754	23,570	1.0	14.0	0.8	0.4
EPL Ltd	50	66	34	83	23,052	35,129	1.5	20.6	10.4	5.1
Median	50	66	38	83	22,754	34,066	1.5	19.3	6.1	1.1
Rossari Biotech	42	62	59	45	5,904	10,928	1.9	33.6	8.0	1.8

Source: Company data, I-Sec research

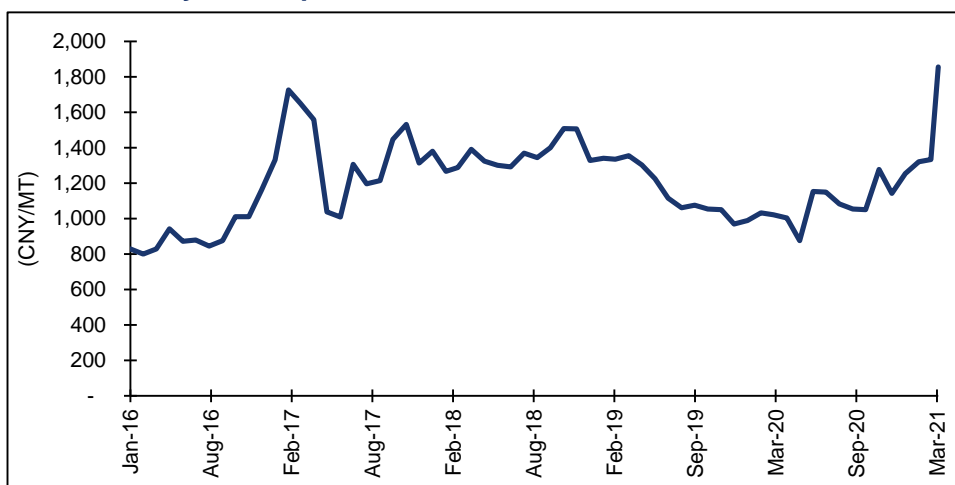
Risks

Downside risks

- **Raw-material price inflation**

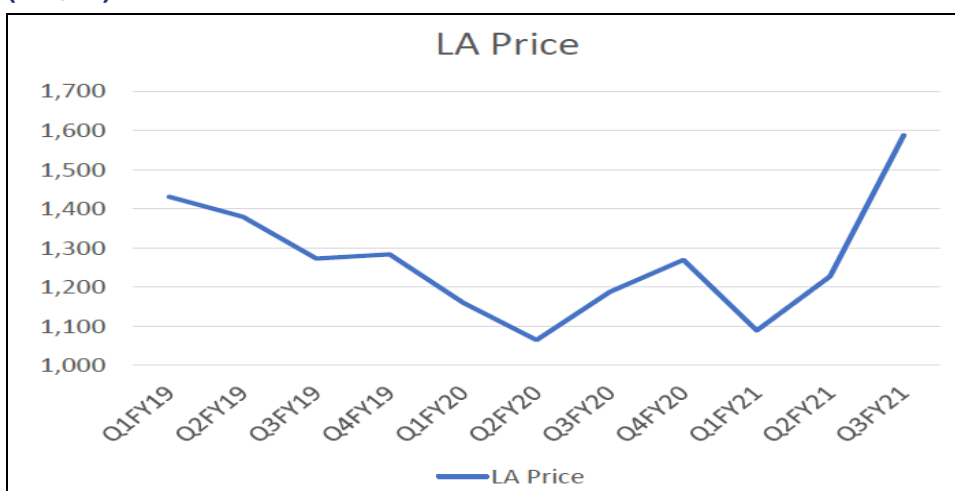
The key raw materials used by the company are acetic acid, acrylic acid and surfactants. These materials in the past few weeks have seen sharp rise in prices. Though the management remains confident of its ability to pass on the price rise, we see it coming with lag, hence can impact margins for the next few quarters (we already saw some margin compression in Q3FY21).

Chart 31: Acrylic acid prices



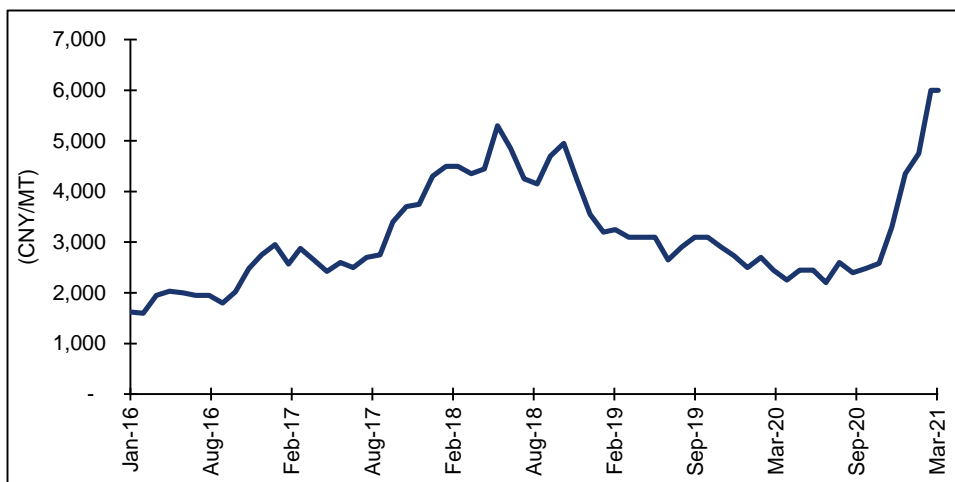
Source: I-Sec research, Bloomberg

Chart 32: Lauryl alcohol (key raw material for liquid surfactants, SLES) price (US\$/te)



Source: I-Sec research, Galaxy Surfactants Q3FY21 earning presentation

Chart 33: Acetic acid prices



Source: I-Sec research, Bloomberg

- Significant reliance on new industry segment for growth: Company has proven capabilities in expanding successfully in new areas, but obstacles cannot be ruled out. This could lead to slower-than-expected revenue growth.
- Textiles is a cyclical industry, and we cannot rule out an ongoing cycle’s rub-off effect on Rossari.
- Client concentration risk – the top-5 and top-10 customers contributed 44% and 53.7% of revenues in FY20.
- Any inorganic growth has its own risks, but we will be able to comment only on closure of deals.

Upside risks

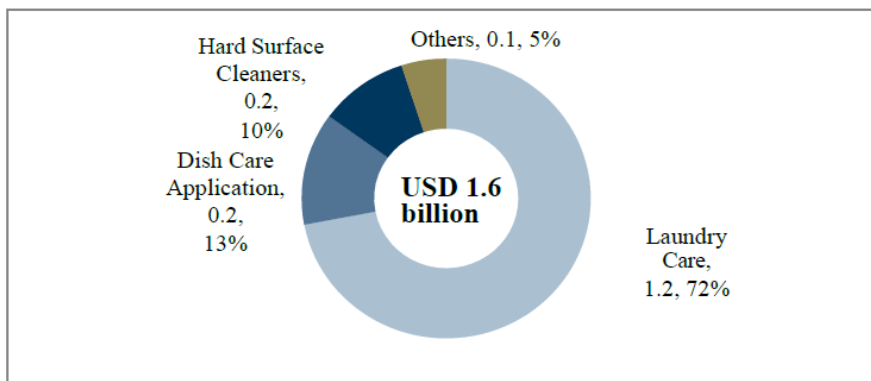
- Faster-than-expected growth in HPPC segment
- Strong brand creation in pet grooming and food category
- Significant value accretive acquisition

About industry

Home, personal care and performance chemicals

Indian home care ingredients market was valued at US\$1.2bn in CY15 and it grew to US\$1.6bn in CY18, a CAGR of 10.8%. Fabric care is a major category with 68% of the household care sector. Non-automatic detergents, such as hand-wash detergents and bars, are the most popular forms. Liquid and powder detergents are becoming more prevalent now. The dish soap and liquid category is the second-largest category, which is fast shifting from traditional dishwashing powder.

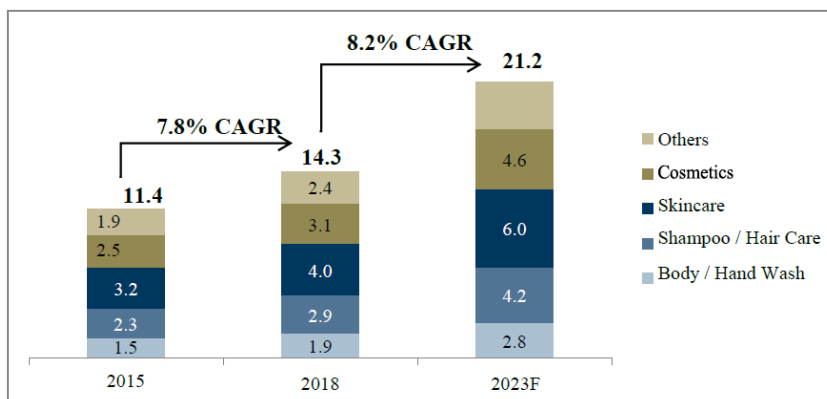
Chart 34: Indian home care ingredients market (US\$ bn, CY18)



Source: I-Sec research, RHP

India personal care ingredients grew at 16.2% CAGR over the last four years, from US\$0.8bn in CY15 to US\$1.2bn in CY18. Over the next five years, it is expected to grow at 15% CAGR to reach US\$2.6bn by CY23. Conditioning agents, surfactants, emollients, emulsifiers, rheology control agents, UV absorbers, hair fixative polymers and antimicrobials are the most commonly used ingredients in the manufacturing of personal care products.

Chart 35: Indian personal care market (US\$ bn, CY18)



Source: I-Sec research, RHP

Textile chemicals

Textile chemicals are added during fabric processing to impart specific features such as sweat absorbency, antimicrobial properties, wrinkle resistance, stain resistance, desired texture, and finish to the fabrics.

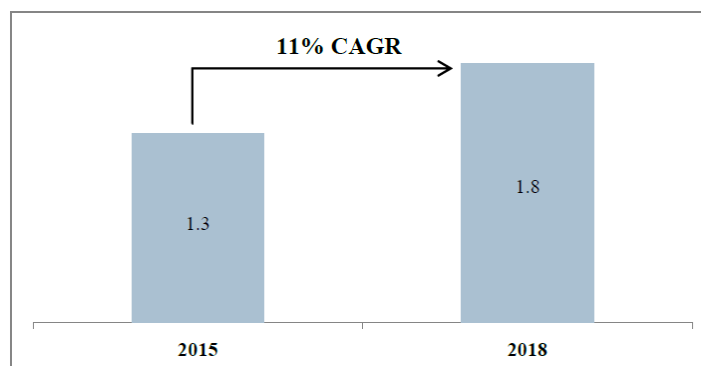
Table 5: Stages of textile processing

Stages	Process	Product Categories
Spinning and weaving	Spinning: Conversion of Cotton or any other fibre into yarn	Polymers, Softeners
Pre-treatment	Textile pre-treatment is the series of cleaning operations. All impurities which cause adverse effect during dyeing and printing are removed in pre-treatment process	Enzymes Wetting & Detergent Sequestering Additives
Dyeing	Chemicals are applied to increase process safety, efficiency and reproducibility for production, so as to achieve the desired optimum dyeing results	Dyes, Acids, Alkali Levelling, Detergent, Fixer
Printing	Pigments and inks are applied to impart the desired colour to textile	Dyes, Binder, Thickener, Fixer Detergent, Loop accelerator
Finishing and coating	Completes the fabric's appearance and gives it the 'final touch'. Special effects are produced during this process, such as wrinkle-free, easy-care, shrink resistance or a gloss effect (chintz)	Softeners, Silicones, Polymers, Resins

Source: I-Sec research, RHP

India is the second largest exporter of textiles globally. Rising global and domestic demand for high-quality textile products, growing textile production, favourable government policies and increasing garments sourcing from India by international brands are boosting demand for textile chemicals. The future growth opportunities in the textile specialty chemicals industry will be primarily driven by diversified and value-added specialty chemicals, which provide sustainable ecofriendly solutions.

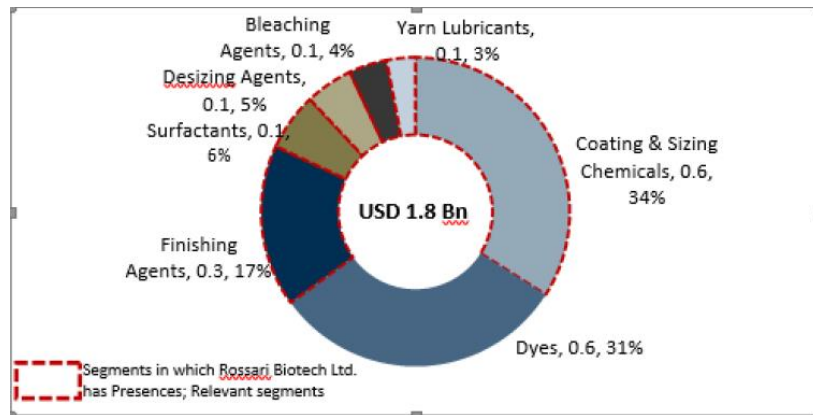
Chart 36: Indian textile chemicals market (US\$ bn, CY18)



Source: I-Sec research, RHP

Textile chemicals, used for the processing stage of textiles, are classified into auxiliaries and colorants. **1) Auxiliaries category:** chemicals used throughout the textile manufacturing process to provide specific characteristics to the fabric – coating and sizing chemicals, desizing agents, surfactants, yarn lubricants, finishing agents; and **2) colorants category:** chemicals used to impart colour to the textile product – dyes and bleaching agents.

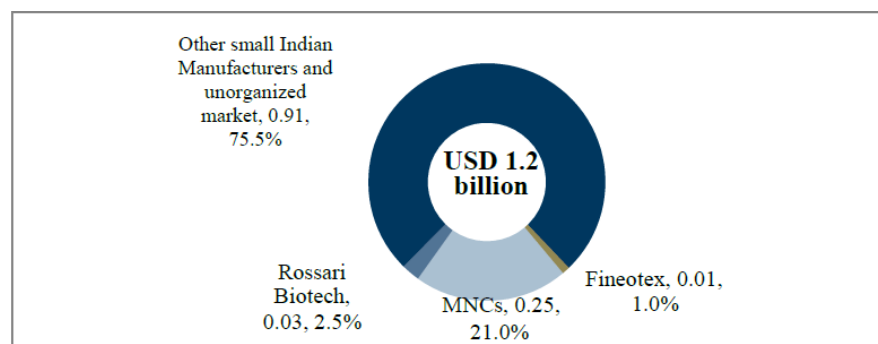
Chart 37: India textile chemical market by products (US\$ bn, CY18)



Source: I-Sec research, RHP

The key competitors in textile chemicals are Archroma, CHT, Rudolf, Croda International, Huntsman Corp, Fineotex Chemical, Resil Chemicals, Dai-chi Karkaria, and others.

Chart 38: Indian textile chemical market by companies (US\$ bn, CY18)

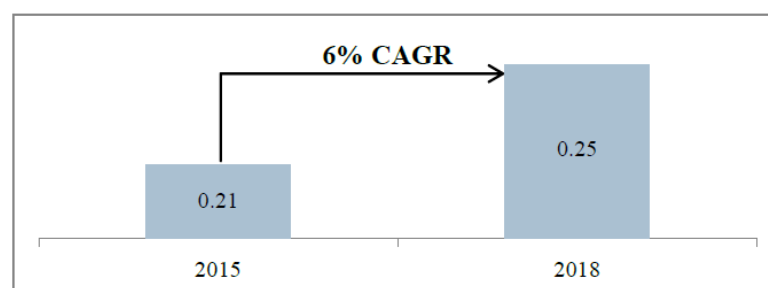


Source: I-Sec research, RHP

Animal health and nutrition

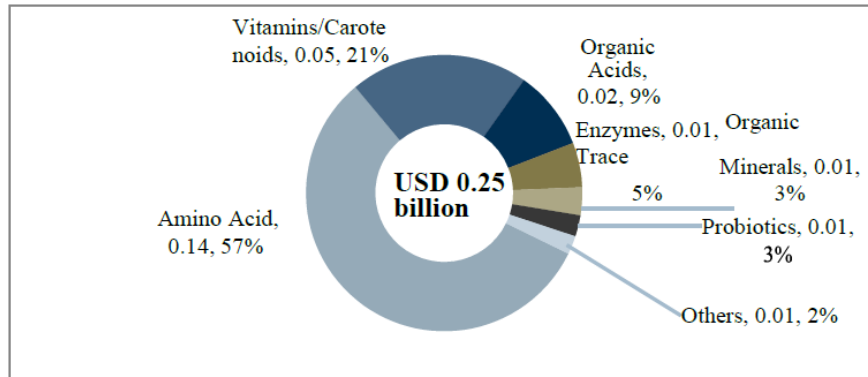
Animal or pet food additives are defined as nutritional ingredients that are supplemented to improve the quality and digestibility of the feed and the performance of animals. The primary additives include amino acids, vitamins/carotenoids, enzymes, organic acids, organic trace minerals, probiotics, prebiotics, and omega-3 fatty acids.

Chart 39: Indian animal and pet nutrition market (US\$ bn, CY18)



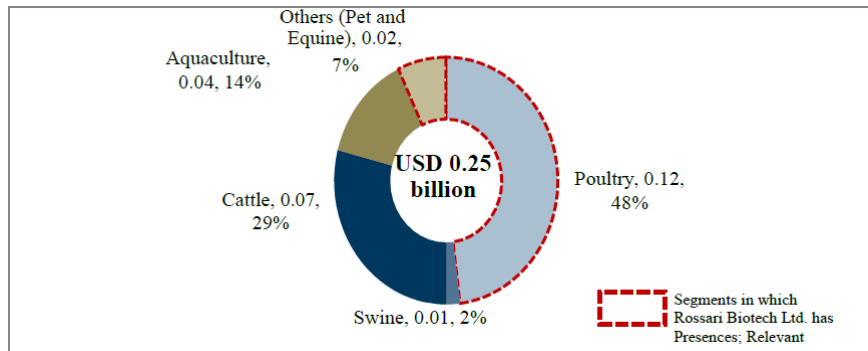
Source: I-Sec research, RHP

Chart 40: Indian animal and pet nutrition market by products (US\$ bn, CY18)



Source: I-Sec research, RHP

Chart 41: Indian animal and pet nutrition market by end-use industry (US\$ bn, CY18)



Source: I-Sec research, RHP

Financial summary

Table 6: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net revenue	6,001	7,093	9,144	10,928
Growth (%)	16.2	18.2	28.9	19.5
Less:				
Cost of goods sold	3,717	4,500	5,847	6,998
Gross profit	2,284	2,593	3,297	3,930
Total Operating Expenses	1,236	1,324	1,589	1,857
EBITDA	1,047	1,269	1,708	2,073
Less: Depreciation & Amortisation	169	211	323	362
EBIT	879	1,058	1,385	1,711
Less: Financial expenses	36	11	-	-
Add: Other income	37	33	40	68
Recurring Pre-tax Income	881	1,080	1,425	1,779
Less: Taxation	226	272	359	448
Recurring Net Income	655	808	1,066	1,330
Add: Extraordinary Items				
Net Income (Reported)	655	808	1,066	1,330

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
ASSETS				
Current Assets, Loan & Advances				
Cash & cash equivalent	1,272	654	1,152	1,763
Debtors	941	1,166	1,528	1,856
Inventories	582	785	1,037	1,269
Other current assets	331	414	591	739
Total Current Assets	3,126	3,018	4,308	5,627
Current Liabilities & Provisions				
Creditors	970	1,147	1,478	1,766
Current Liabilities	240	214	275	329
Provisions	7	7	8	9
Total Current Liabilities & Provisions	1,217	1,367	1,761	2,104
Net Current Assets	1,909	1,651	2,546	3,522
Investments	137	137	137	137
Goodwill				
Net block	1,153	1,955	1,882	1,870
Other non-current	299	331	368	408
Total Assets	3,499	4,073	4,933	5,937
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders Fund				
Equity share capital	102	104	104	104
Reserves and surplus	2,765	3,944	4,797	5,795
Total Shareholders Fund	2,867	4,048	4,901	5,899
Borrowings	610	-	-	-
Deferred Tax Liability	5	5	5	5
Minority Interest				
Other non-current liabilities	16	20	27	33
Total Liabilities & Shareholders' Equity	3,499	4,073	4,933	5,937

Source: Company data, I-Sec research

Table 8: Cashflow statement*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
Cashflow from Operating Activities				
Profit before tax	881	1,080	1,425	1,779
Less: Income tax	(201)	(272)	(359)	(448)
Adjustments for :				
Depreciation	169	211	323	362
Finance charges	36	11	-	-
Operating Cashflow Before Working Capital change (a)	859	992	1,349	1,624
Changes in Working Capital	(311)	(329)	(428)	(398)
Net Cashflow from Operating Activities (a) + (b)	548	663	921	1,226
Cashflow from Capital commitments (c)	(760)	(1,012)	(250)	(350)
Free Cashflow after capital commitments (a) + (b) + (c)	(211)	(349)	671	876
Cashflow from Investing Activities				
Purchase of Investments	(137)	-	-	-
Others	(1,006)	33	40	68
Net Cash flow from Investing Activities (d)	(1,143)	33	40	68
Cashflow from Financing Activities				
Issue of Share Capital during the year (incl. premium)	1,000	500	-	-
Proceeds from fresh borrowings	629	(669)	-	-
Dividend paid including tax and Others	(59)	(132)	(213)	(333)
Net Cash flow from Financing Activities (e)	1,569	(302)	(213)	(333)
Total Increase / (Decrease) in Cash (a) + (b) + (c) +(d) + (e)	215	(618)	498	611
Opening Cash and Bank balance	77	1,272	654	1,152
Closing Cash and Bank balance	292	654	1,152	1,763
Increase / (Decrease) in Cash and Bank balance	215	(618)	498	611

Source: Company data, I-Sec research

Table 9: Key ratios*(Year ending March 31)*

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs)				
Recurring EPS	12.9	15.6	20.5	25.6
Reported EPS	12.9	15.6	20.5	25.6
Recurring Cash EPS	16.2	19.6	26.7	32.6
Dividend per share (DPS)	0.4	2.3	4.1	6.4
Book Value per share (BV)	56.5	78.0	94.4	113.6
Growth Ratios (%)				
Operating Income	16.2	18.2	28.9	19.5
EBITDA	34.9	21.1	34.6	21.3
Recurring Net Income	43.3	23.4	31.9	24.8
Diluted Recurring EPS	(37.9)	20.6	31.9	24.8
Diluted Recurring CEPS	(38.4)	20.9	36.3	21.9
Valuation Ratios (x)				
P/E	75.7	62.7	47.6	38.1
P/CEPS	60.2	49.8	36.5	29.9
P/BV	17.3	12.5	10.3	8.6
EV / EBITDA	46.6	39.3	28.9	23.5
EV / Operating Income	8.1	7.0	5.4	4.5
EV / Operating FCF	(36.0)	(157.6)	69.5	51.7
Operating Ratios				
Other Income / PBT (%)	4.2	3.0	2.8	3.8
Effective Tax Rate (%)	25.7	25.2	25.2	25.2
NWC / Total Assets (%)	54.6	40.5	51.6	59.3
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)	(0.6)	(0.8)	(0.9)
Capex % of sales	12.7	14.3	2.7	3.2
Return/Profitability Ratios (%)				
Recurring Net Income Margins	10.9	11.4	11.7	12.2
RoCE (pre-tax)	36.5	27.9	31.0	31.7
RoIC	39.0	29.4	30.2	33.6
RoNW	31.9	23.4	23.8	24.6
Dividend Yield	0.0	0.2	0.4	0.7
Gross Margins	38.1	36.6	36.1	36.0
EBITDA Margins	17.5	17.9	18.7	19.0

Source: Company data, I-Sec research

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