

Rossari Biotech

Exports to drive future growth, margins to normalise at ~13.5-14.0%

Rossari Biotech (Rossari) reported in-line performance in Q1FY25 with higher YoY top-line, however lower EBITDA margins. YoY Revenues/EBITDA/PAT grew 19.3%/12.4%/19.4%. The quarter's performance was bolstered by strong volume growth in both the HPPC and TSC segments, despite a challenging demand environment. However, AHN segment adversely affected overall growth, reporting underwhelming performance. In Q1FY25, the HPPC segment reported substantial YoY revenue growth of ~21.3%. TSC segment too demonstrated robust performance, with ~4% QoQ and ~21% YoY growth. AHN segment revenues declined 6.9% YoY and 20.6% QoQ. Rossari demonstrated notable resilience in international markets, effectively navigating challenges including increased logistics costs and shipment delays. The company's strategy of retaining and expanding its customer base suggests strong prospects for continued growth in future. We have kept our estimates unchanged and maintain our BUY rating, valuing the stock at 26x FY26E EPS of Rs36.0 with an unchanged TP of Rs936.

HPPC and TSC segment continues to grow

In Q1, Rossari reported overall revenue growth of 19.3% YoY and 3.6% QoQ, reaching Rs4.9bn. HPPC and TSC segments primarily drove this growth, while the AHN segment lagged. Q1 EBITDA increased 12.4% YoY and 2.0% QoQ, at Rs649mn. PAT rose 19.4% YoY and 2.2% QoQ, amounting to Rs349mn. TSC segment revenue grew 21.0% YoY and 4.3% QoQ, reaching Rs981mn. This performance was bolstered by a rebound in the domestic textile business and the destocking over in the US markets, which is expected to drive further growth in the TSC segment in the upcoming quarters. HPPC segment reported 21.3% YoY and 5.8% QoQ growth at Rs3.6bn.

Export share rising

During Q1FY25, Rossari's export share increased to ~24% of overall revenues, compared to ~20% in Q1FY24, representing a 1.5x YoY growth in value terms. Export markets are expanding faster than domestic markets as the company penetrates new regions, despite challenges with freight charges and shipment delays. The management remains confident of 25-26% exports contribution in FY25, with a target of reaching ~30% in coming years.

Capexes to get commissioned by March FY25, to aid growth in FY26-27E

In Q2FY24, the Company announced a capacity expansion of 20,000 MTPA at its Dahej facility and an additional 30,000 MTPA for Ethoxylation at Unitop Chemicals' Dahej facility. These expansions, aimed at HPPC-related specialty chemicals, are expected to reach peak utilization by FY26-27E and contribute incremental ~Rs4bn to the topline, reflecting asset turnover of ~4x. The stock is currently trading at 29.2x/22.8x FY25E/FY26E EPS of Rs28.1/Rs36.0. We keep our estimates unchanged and maintain BUY with an unchanged TP of Rs936.

Risks – Delay in AHN segment recovery, margin pressure

Financial and valuation summary

YE Mar (Rs mn)	1QFY25A	1QFY24A	YoY (%)	4QFY24A	QoQ (%)	FY24A	FY25E	FY26E
Revenues	4,897	4,106	19.3	4,727	3.6	18,306	20,667	23,794
EBITDA	649	577	12.4	636	2.0	2,498	2,917	3,485
EBITDA margin (%)	13.3	14.1	(80bps)	13.5	(20bps)	13.6	14.1	14.6
Adj. Net profit	349	292	19.4	341	2.2	1,307	1,553	1,989
Adj. EPS (Rs)	6.3	5.3	19.2	6.2	2.2	23.7	28.1	36.0
EPS growth (%)						21.6	18.8	28.1
PE (x)						34.6	29.2	22.8
EV/EBITDA (x)						18.4	15.7	12.7
PBV (x)						4.3	3.8	3.3
RoE (%)						13.3	13.9	15.5
RoCE (%)						13.5	13.6	15.1

Source: Company, Centrum Broking

Result Update

India I Chemicals

22 July, 2024

BUY

Price: Rs820

Target Price: Rs936

Forecast return: 14%

Institutional Research

Market Data

Bloomberg:	ROSSARI IN
52 week H/L:	896/657
Market cap:	Rs45.3bn
Shares Outstanding:	55.2mn
Free float:	28.6%
Avg. daily vol. 3mth:	1,55,651

Source: Bloomberg

Changes in the report

Rating:	BUY, unchanged
Target price:	Rs936, unchanged
EPS:	FY25E: Rs28.1; unchanged FY26E: Rs36.0; unchanged

Source: Centrum Broking

Shareholding pattern

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	68.3	68.3	68.3	68.4
FIIs	3.8	4.0	4.1	5.7
DIIIs	16.7	17.7	18.1	17.7
Public/other	11.2	10.0	9.5	8.2

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY25E	Actual Q1FY25	Variance (%)
Revenue	4,640	4,897	5.53
EBITDA	640	649	1.38
EBITDA margin (%)	13.8	13.3	(54bps)
Adj. PAT	346	349	0.86

Source: Bloomberg, Centrum Broking



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Chemicals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg.	FY26E New	FY26E Old	% chg.
Revenue	20,667	20,667	-	23,794	23,794	-
EBITDA	2,917	2,917	-	3,485	3,485	-
EBITDA margin	14.1	14.1	-	14.6	14.6	-
Adj. PAT	1,553	1,553	-	1,989	1,989	-
Diluted EPS (Rs)	28.1	28.1	-	36.0	36.0	-

Source: Centrum Broking

Rossari Biotech versus NIFTY Mid Cap 100

	1m	6m	1 year
Rossari in equity	(0.5)	0.0	(6.2)
NIFTY Mid Cap 100	2.2	21.6	53.9

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
Revenue growth (%)	12.9	15.1
Gross margins (%)	29.3	29.7
EBITDA margins (%)	14.1	14.6

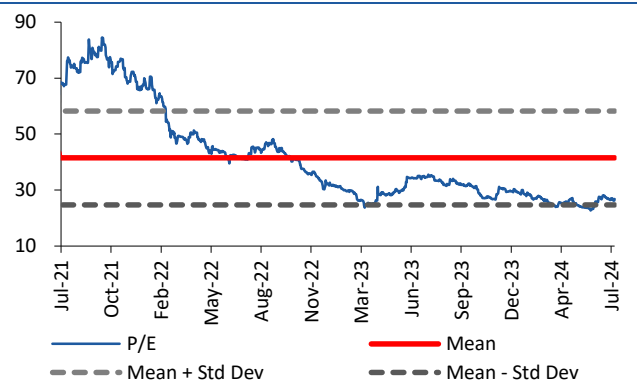
Source: Centrum Broking

Valuations

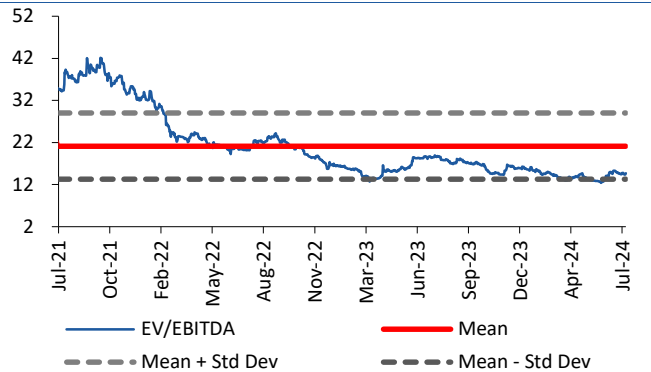
Capexes on expansions, aimed at HPPC-related specialty chemicals, are expected to reach peak utilization by FY26-27E and contribute incremental ~Rs4bn to the topline, reflecting asset turnover of ~4x. The stock is currently trading at 29.2x/22.8x FY25E/FY26E EPS of Rs28.1/Rs36.0. We keep our estimates unchanged and maintain BUY with an unchanged TP of Rs936.

Valuations	Rs/share
FY26E EPS	36.0
Target multiple (x)	26.0
Target Price	936
CMP	820
Upside/ (downside)	14.2

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY24A-26E)			P/E (x)			EV/EBITDA (x)			ROE		
	(Rs bn)	Sales	EBITDA	EPS	FY24A	FY25E	FY26E	FY24A	FY25E	FY26E	FY24A	FY25E	FY26E
Aarti Industries	252.2	16.3	37.9	50.7	60.7	35.5	26.7	29.0	19.3	15.7	8.1	12.7	14.8
Anupam Rasayan	87.6	20.7	23.3	45.2	68.1	46.5	32.3	24.9	20.5	16.1	5.0	6.6	8.8
Atul	213.7	16.7	27.7	37.0	66.3	44.4	32.9	33.9	25.2	19.4	6.6	8.4	10.7
Deepak Nitrite	388.6	18.4	39.9	37.1	48.0	34.2	25.5	34.4	23.3	17.7	18.2	21.5	23.5
Dhanuka Agritech*	76.8	15.3	15.8	15.5	31.7	27.6	23.8	23.1	19.2	16.4	20.6	20.1	19.9
Galaxy Surfactants	100.9	9.7	12.0	11.4	33.0	29.9	26.6	21.3	18.6	16.5	14.8	14.4	14.6
Gujarat Fluorochem	359.2	33.5	54.2	74.6	82.1	43.4	26.9	39.3	24.5	16.7	7.6	13.0	18.0
Navin Fluorine	177.7	26.6	45.1	58.6	65.8	48.1	32.4	48.0	31.8	22.7	9.6	14.5	18.5
PI Industries*	611.7	14.7	13.9	5.5	36.2	37.4	32.5	29.0	25.4	21.7	21.1	17.3	17.2
Rossari Biotech	45.1	14.0	18.1	23.4	34.6	29.2	22.8	18.4	15.7	12.7	13.3	13.9	15.5
SRF	699.9	16.3	25.9	33.9	52.5	39.1	29.3	28.9	23.0	18.2	12.3	14.6	16.9
UPL *	409.9	6.7	42.4	LTP	-	48.6	14.5	13.9	8.6	6.4	(2.4)	3.4	9.9
Vinati Organics	204.1	20.3	23.3	24.8	63.4	49.7	40.7	43.6	34.1	28.5	13.8	15.7	16.8

Source: Company, Centrum Broking; *(YoY relevant)

Q1FY25 concall highlights

Growth to continue in both domestic and exports, EBITDA margins at 13.5-14.0%, one-time expenses elevated opex in Q1

Financial performance

- EBITDA impacted by increase in other expenses due to higher freight costs and increase in S&D expenses
- Opex higher due to consulting expenses in restructuring and reorganising + maintenance charges relating to shutting of Tristar facility for some period in Q1
- Overall prices stable as of now
- Last few quarters growth has been due to volume uptick and where necessary company have taken a price cut to maintain volumes
- Buzil rossari segment contributes ~Rs600mn in Q1FY25. In line to achieve Rs2.5bn annually
- To see release of funds in WC from Sept 2024 onwards
- Freight increase YoY by 35-40%

Business performance

- Healthy uptick in TSC and HPPC division
- R&D continues to drive success
- Strong growth in the Agrochem Space for the quarter despite industry having subdued demand
- Developed new verticals in Core chemistry as domestic market has still been the growth driver for the quarter
- Home textile business is now on an uptick in India
- Non agrochem of Unitop grew by ~30% in Q1 along with a growth in Agro
- HPPC segment have introduced and launched a lot of products in the last few quarters contributing to the volume increase
- Esters have been produced in house in Dahej plant which is benefitting HPPC segment
- Increased the production capacity of Bio surfactants as well
- Majority of the products have been produced in house and hence benefitting rossari
- Monsoon has been good with agrochem formulators seeing good uptick for the next few months
- Dubai Subsidiary incorporated – to be used for registering global expansion in the future
- Ethoxylation Utilisation (both Unitop and Tristar) – 90%+ (Overall average - ~60%)

Capex

- Cash outflow for the FY will only be for the current capexes at Unitop and Dahej + AHN vitamin premix and mineral plant. Overall totalling Rs1bn
- FY26-27E – 100% utilisation of capacities
- Asset turn of 4x from Capexes at peak

Export performance

- Export markets growing faster than domestic markets , penetration into new regions
- Bangladesh forex issues have eased considerably
- Exports in textile is growing especially in the US markets and hence confident of growth in the coming qtrs
- ~24-25% of the revenue in Q1 is contributed from Exports (1.5x growth in value terms YoY)
- 2H to see good traction in Export of textiles from EMEA and US
- Aiming to get ~30% export target in next 2 years
- All export contracts on FOB
- Normal shipping time has increased with delays in shipment and container availability
- Textile exports to grow as destocking happened in American markets

Outlook

- To see good traction in the personal care area (cosmetics) in the coming quarters
- Current EBITDA margins to be considered new normal (13.5%-14%)
- Hospital hygiene segment of Buzil Rossari to grow in future
- Operating leverage in the EBITDA margins of Buzil Rossari to be seen at around ~Rs5bn and post these revenue levels expect boost in margins (around 2-3yrs to reach Rs5bn)

Q1FY25 snippets from presentation

HPPC and TSC segment grow during Q1

Financial performance

- Q1 Revenue segmental breakup – HPPC 75% / TSC 20% / AHN 5%
- EBITDA CAGR for FY22-24 – 16%
- HPPC Q1 – Rs3650mn
- TSC Q1 – Rs980mn
- AHN Q1 – Rs270mn

Business and Segmental performance – Robust HPPC and TSC performance contributes to growth

- HPPC Q1 – 21% YoY/ 6% QoQ revenue growth
- TSC Q1 – 21% YoY/ 4% QoQ revenue growth
- AHN Q1 – 7% YoY / 21% QoQ revenue de-growth
- Overall Revenue growth – 19% YoY
- Consistent growth trajectory over the past three years ,driven by both organic and inorganic growth strategies
- Near-term investments and strategic initiatives led to a moderation in ROCE and ROE
- Balance sheet position remains strong
- Performance driven by healthy volume growth in both HPPC and TSC business.
- AHN business remained stable to marginally negative during the quarter
- HPPC and TSC divisions achieved a robust growth of 21%
- Continue to expand customer base which is significantly contributing to the growth story
- Delivered a strong performance in the international markets

Capex update

- Work on both Ethoxylation capacity increase (30000MTPA) + Dahej expansion for spec chem (20000MTPA) are progressing as planned. Commissioning is expected to happen, in a phased manner in the current year

Outlook

- Going forward, expect exports to be a key growth vertical
- Growth strategy continues to focus on broadening customer base, expanding geographies and prioritizing higher margin products

Exhibit 1: Quarterly Review (Cons.)

Y/E March (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	% chg.
Net sales	4,897	4,107	19.3	4,727	3.6	18,306	16,559	10.5
Cost of Goods	3,409	2,895	17.8	3,383	0.8	12,935	11,710	10.5
% of sales	69.6	70.5		71.6		70.7	70.7	
Employee benefit expenses	286	245	16.6	250	14.1	1,031	986	4.6
% of sales	5.8	6.0		5.3		5.6	6.0	
Other expenditure	553	388	42.4	458	20.7	1,853	1,632	13.5
% of sales	11.3	9.5		9.7		10.1	9.9	
Operating profit	649	577	12.4	636	2.0	2,486	2,230	11.5
OPM (%)	13.3	14.1		13.5		13.6	13.5	
Dep. and amor.	154	141	8.9	161	(4.4)	604	629	(4.0)
EBIT	495	436	13.5	475	4.2	1,882	1,601	17.5
Interest	37	63	(41.7)	25	46.0	182	223	(18.5)
Other income	9	22	(56.7)	4	143.1	74	55	35.8
Excp. Item	2	0	-	2	14.1	2	10	(81.7)
PBT	470	395	19.1	456	3.1	1,776	1,442	23.2
Provision for tax	121	102	18.1	114	5.7	469	370	27.0
eff. tax rate	25.7	25.9		25.1		26.4	25.6	
PAT (rep.)	349	292	19.4	341	2.2	1,307	1,073	21.8
NPM (%)	7.1	7.1		7.2		7.1	6.5	
EPS (Rs)	6.3	5.3	19.2	6.2	2.2	23.7	19.4	21.6

Segmental Breakup

Segment Sales (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	% chg.
HPPC	3,646	3,007	21.3	3,447	5.8	13,679	11,569	18.2
TSC	981	810	21.0	940	4.3	3,543	3,735	(5.2)
AHN	270	290	(6.9)	340	(20.6)	1,085	1,255	(13.6)
Total	4,897	4,107	19.3	4,727	3.6	18,306	16,559	10.5

Exhibit 2: Quarterly trend

Quarterly (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Revenues	4,347	4,254	3,893	4,065	4,107	4,835	4,638	4,727	4,897	19.3	3.6
Q-o-Q gr. (%)	(1.0)	(2.1)	(8.5)	4.4	1.0	17.7	(4.1)	1.9	3.6		
Raw Mat. Cons.	2,926	2,596	2,579	2,562	2,553	3,138	2,977	2,996	2,983	16.9	(0.4)
% of net sales	67.3	61.0	66.3	63.0	62.2	64.9	64.2	63.4	60.9		
Purchase of prod.	181	422	145	301	342	289	253	387	426	24.4	10.0
% of net sales	4.2	9.9	3.7	7.4	8.3	6.0	5.5	8.2	8.7		
Employee Costs	235	241	242	268	245	275	260	250	286	16.6	14.1
% of net sales	5.4	5.7	6.2	6.6	6.0	5.7	5.6	5.3	5.8		
Others	428	430	385	388	388	496	511	458	553	42.4	20.7
% of net sales	9.9	10.1	9.9	9.6	9.5	10.3	11.0	9.7	11.3		
EBITDA	577	565	542	546	577	636	637	636	649	12.4	2.0
Q-o-Q growth (%)	10.4	(2.1)	(4.2)	0.8	5.8	10.1	0.2	(0.1)	2.0		
EBITDA Margin (%)	13.3	13.3	13.9	13.4	14.1	13.1	13.7	13.5	13.3		
Dep. & Amor.	153	156	160	160	141	151	151	161	154	8.9	(4.4)
EBIT	424	409	382	386	436	485	486	475	495	13.5	4.2
Interest exp.	51	82	47	43	63	50	43	25	37	(41.7)	46.0
Other Income	7	8	11	28	22	14	35	4	9	(56.7)	143.1
Exceptional Items	6	1	0	2	-0	0	0	2	2	(528.6)	14.1
EBT	387	336	347	372	395	448	478	456	470	19.1	(4.6)
Provision for tax	100	97	90	83	102	119	134	114	121	18.1	(14.6)
Eff. tax rate (%)	25.9	28.9	25.9	22.2	25.9	26.5	28.0	25.1	25.7		
Net Profit	287	239	257	290	292	329	344	341	349	19.4	2.2
Q-o-Q gr. (%)	19.1	(16.6)	7.4	12.8	0.8	12.8	4.4	(0.8)	2.2		
PAT Margin (%)	6.6	5.6	6.6	7.1	7.1	6.8	7.4	7.2	7.1		
Segment sales (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
HPPC	3,165	3,038	2,712	2,654	3,007	3,671	3,554	3,447	3,646	21.0	5.8
TSC	939	919	895	985	810	959	834	940	981	21.2	4.3
AHN	243	302	286	425	290	205	250	340	270	(5.3)	(20.6)
Total	4,347	4,259	3,893	4,064	4,107	4,835	4,638	4,727	4,897	19.3	3.6

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenues	14,830	16,559	18,306	20,667	23,794
Operating Expense	11,050	11,713	12,935	14,607	16,732
Employee cost	679	986	1,031	1,201	1,406
Others	1,266	1,629	1,841	1,942	2,171
EBITDA	1,834	2,230	2,498	2,917	3,485
Depreciation & Amortisation	481	629	604	765	823
EBIT	1,354	1,601	1,894	2,152	2,661
Interest expenses	127	223	194	158	117
Other income	120	55	74	82	115
PBT	1,363	1,442	1,776	2,076	2,659
Taxes	386	370	469	523	670
Effective tax rate (%)	28.3	25.6	26.4	25.2	25.2
PAT	977	1,073	1,307	1,553	1,989
Minority/Associates	0	0	0	0	0
Recurring PAT	977	1,073	1,307	1,553	1,989
Extraordinary items	0	0	0	0	0
Reported PAT	977	1,073	1,307	1,553	1,989

Ratios					
YE Mar	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (%)					
Revenue	109.1	11.7	10.5	12.9	15.1
EBITDA	49.1	21.6	12.0	16.8	19.5
Adj. EPS	15.4	9.6	21.6	18.8	28.1
Margins (%)					
Gross	25.5	29.3	29.3	29.3	29.7
EBITDA	12.4	13.5	13.6	14.1	14.6
EBIT	9.1	9.7	10.3	10.4	11.2
Adjusted PAT	6.6	6.5	7.1	7.5	8.4
Returns (%)					
ROE	16.1	12.5	13.3	13.9	15.5
ROCE	17.3	13.7	13.5	13.6	15.1
ROIC	10.6	12.7	11.7	12.3	14.8
Turnover (days)					
Gross block turnover ratio (x)	3.9	4.2	4.3	3.3	3.6
Debtors	55	73	78	77	74
Inventory	47	59	66	70	65
Creditors	52	57	56	58	58
Net working capital	80	91	98	90	107
Solvency (x)					
Net debt-equity	(0.1)	(0.1)	0.1	0.0	(0.1)
Interest coverage ratio	14.5	10.0	12.9	18.4	29.8
Net debt/EBITDA	(0.2)	(0.2)	0.3	0.2	(0.3)
Per share (Rs)					
Adjusted EPS	17.7	19.4	23.7	28.1	36.0
BVPS	146.2	165.9	189.7	215.5	248.6
CEPS	26.5	30.9	34.6	42.0	50.9
DPS	0.5	0.5	0.5	2.2	2.9
Dividend payout (%)	2.8	2.6	2.1	8.0	8.0
Valuation (x)					
P/E	46.2	42.1	34.6	29.2	22.8
P/BV	5.6	4.9	4.3	3.8	3.3
EV/EBITDA	23.0	20.0	18.4	15.7	12.7
Dividend yield (%)	0.1	0.1	0.1	0.3	0.4

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Equity share capital	110	110	110	110	110
Reserves & surplus	7,942	9,041	10,367	11,795	13,625
Shareholders fund	8,052	9,152	10,477	11,906	13,735
Minority Interest	0	0	0	0	0
Total debt	84	739	1,058	1,058	758
Non Current Liabilities	879	102	149	149	149
Def tax liab. (net)	689	587	515	515	515
Total liabilities	9,705	10,581	12,199	13,628	15,157
Gross block	3,827	3,908	4,260	6,240	6,690
Less: acc. Depreciation	(803)	(1,208)	(1,654)	(2,222)	(2,845)
Net block	3,025	2,700	2,606	4,018	3,845
Capital WIP	13	131	472	472	472
Net fixed assets	6,326	6,263	6,498	7,733	7,380
Non Current Assets	132	165	725	725	725
Investments	2	2	2	2	2
Inventories	1,899	1,885	2,823	2,782	3,187
Sundry debtors	3,049	3,537	4,251	4,513	5,196
Cash & Cash Equivalents	524	1,239	302	558	1,714
Loans & advances	14	3	7	7	7
Other current assets	608	551	1,064	1,064	1,064
Trade payables	1,862	1,810	2,191	2,474	2,834
Other current liab.	985	1,244	1,286	1,286	1,286
Provisions	16	41	45	45	45
Net current assets	3,231	4,119	4,926	5,119	7,002
Total assets	9,705	10,581	12,199	13,628	15,157

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Profit Before Tax	1,363	1,442	1,776	2,076	2,659
Depreciation & Amortisation	481	629	604	765	823
Net Interest	127	223	194	158	117
Net Change – WC	(676)	(938)	(1,806)	63	(728)
Direct taxes	(470)	(491)	(558)	(523)	(670)
Net cash from operations	688	801	133	2,457	2,087
Capital expenditure	(3,708)	(224)	(764)	(2,000)	(470)
Acquisitions, net	0	0	0	0	0
Investments	(118)	(144)	(116)	0	0
Others	120	55	74	82	115
Net cash from investing	(3,706)	(313)	(806)	(1,918)	(355)
FCF	(3,017)	488	(672)	539	1,732
Issue of share capital	3,022	50	0	0	0
Increase/(decrease) in debt	84	655	319	0	(300)
Dividend paid	(28)	(28)	(28)	(124)	(159)
Interest paid	(127)	(223)	(194)	(158)	(117)
Others	(443)	(774)	(413)	0	0
Net cash from financing	2,509	(319)	(315)	(282)	(576)
Net change in Cash	(508)	168	(988)	256	1,155

Source: Company, Centrum Broking

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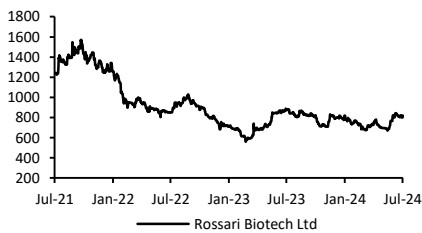
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Rossari Biotech



Source: Bloomberg

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