July 26, 2023

Rossari Biotech Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based working capital facilities	147.00	172.00	[ICRA]AA- (Stable); reaffirmed/assigned for enhanced amount
Fund-based term loan	0.00	45.00	[ICRA]AA- (Stable); reaffirmed/assigned for enhanced amount
Non-fund based limit	25.61	25.61	[ICRA]A1+; reaffirmed
Unallocated limit	7.39	0.00	-
Total	**180.00**	**242.61**	

Instrument details are provided in Annexure-I

Rationale

The assigned ratings factor in the extensive experience of Rossari Biotech Ltd. (Rossari) in the specialty chemical manufacturing business spanning around two decades and the established track record of its management. The ratings also consider the company's strong financial risk profile, characterised by healthy profit margins and moderate working capital intensity. The capitalisation and coverage indicators are also healthy because of the steady cash accruals and minimal debt levels.

Rossari's revenue and profitability at the consolidated level witnessed a healthy uptick in FY2023, supported by the performance of the acquired entities - Unitop Chemicals Limited (Unitop) and Tristar Intermediates Private Limited (Tristar) - along with the moderation in input prices during the year. ICRA takes note of the moderation in Rossari's revenue in the standalone entity due to the loss of a major customer in FY2023. Nevertheless, the company has been able to recoup a major portion of the lost revenue by onboarding new customers. The standalone credit profile is also expected to remain stable, driven by healthy cash generation, moderate working capital intensity and no major capex plans.

The ratings also factor in the company's robust in-house research and development (R&D) facilities, aided by the expertise of Unitop and Tristar in complementary chemistries and the synergistic business opportunities through them, enabling cross-selling and expanding the Group's market reach.

The ratings are, however, constrained by competition in the specialty chemicals segment, both from domestic and prominent multinational companies. These competitive pressures impose constraints on the company's customer dynamics, as they may limit the flexibility in pricing and potentially impact the profitability. Though raw material costs are stable at present, the inherent volatility in prices remains a key monitorable as it directly affects the company's profitability, though the company may possess the ability to partially pass on the cost increases to customers.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's expectation that Rossari's credit profile will remain healthy in the near to medium term, aided by its strong market position in several specialty chemical segments, the experience of promoters, R&D capabilities, scaling up of recently added capacities and benefits from acquisitions. With no major capex plans in the near term, the leverage level (gross total debt/OPBDITA) is expected to be maintained at healthy levels.

Key rating drivers and their description

Credit strengths

Experienced management and established market position with diversified product portfolio – The promoters of Rossari are technocrats with extensive experience in the chemical industry spanning over three decades. The company is a well-established player in the specialty chemical business and caters to three broad segments: i) Textile specialty chemicals (TSC) ii) Home, personal care and performance chemicals (HPPC) and iii) Animal health and nutrition (AHN). Rossari has a large and diversified product portfolio catering to various end-user industries. The recent acquisitions of Unitop, Tristar and Romakk Chemicals Limited provide synergistic benefits and enable the company to widen its product offerings.

Strong R&D facilities for new product development and process innovations – While the company had in-house R&D capabilities, the recent acquisitions have augmented the group's R&D capabilities in both current and new chemistries, which will aid new product development. The new products being developed include green products in the TSC segment, nanotechnology-based cleaning products and water treatment chemicals.

Established relationship with wide customer base of distributors and institutional customers – The company has a wide customer base of over 500 clients, comprising reputable institutional players and distributors. The company has maintained long-term relationships with several customers, receiving repeat orders and, in several cases, supplying customised products, which improved the client stickiness. The company's exports have also increased and it is exploring new customer segments and channels. The developments on this front will be monitored.

Strong financial risk profile – The company continued to witness healthy revenue growth in FY2023, with ~12% growth on a consolidated basis, aided by the robust performance of the subsidiaries even as the revenues of the standalone entity declined. While the company's operating margins moderated in FY2022 and FY2023 owing to a sharp rise in input prices which could not be fully passed on to the customers, the overall profitability has remained robust because of a healthy revenue growth. Owing to the moderately low working capital intensity, stable cash flow generation and the equity raised in FY2022, the company has been able to fund its capex and acquisitions through internal accruals and the funds raised from equity. The debt levels remain moderately low, resulting in healthy capitalisation and coverage indicators.

Credit challenges

Susceptible to volatility in sharp raw material price fluctuations and forex movement – The company's profitability remains vulnerable to the volatility in raw material prices and foreign currency exchange rate fluctuations. The company's key raw materials include acrylic acid, acetic acid, silicone oil, etc., whose prices are linked to crude oil and are inherently volatile in nature. Although the prices of raw materials have stabilized in FY2023, the inherent price volatility remains a critical aspect to monitor as the company's profitability is contingent upon the stability of raw material costs. However, the company's ability to pass on a portion of the cost increase to customers provides some potential cushion.
Moreover, imports contribute ~11% to its raw material consumption, however, the company is largely protected against forex risks owing to natural hedge provided by the exports exceeding the imports undertaken. ICRA takes note of the steps taken by the company to reduce imports through the procurement of raw material from local players, while at the same time exports are increasing, leading to an improvement in the natural hedge.

Intense competition - The company faces competition from domestic and international players, which limits the pricing flexibility and restricts the margin to an extent in several segments.

Liquidity position: Strong

The company's liquidity is expected to remain strong, supported by free cash balance of Rs. 95.8 crore as on March 31, 2023, largely unutilised working capital limits of Rs. 172 crore, moderate to low working capital intensity and stable cash flow from operations in the range of Rs. 130-160 crore per annum over the course of the next three years. The company will be incurring an outflow of around ~Rs. 100 crore towards the remaining payout for the acquisition of Unitop and Tristar in FY2024 which ICRA expects it to meet comfortably amid the modest capex requirements and debt repayment of Rs. 10 crore during the year.

ESG Risks

As a chemical manufacturing company, the company is exposed to environmental regulations and safety standards, which are expected to be tightened over time. These necessitate investments towards meeting the evolving standards. As per the disclosures, the company complies with the provisions of the relevant standards. Both the plants of the company have also been certified by the Zero Discharge Hazardous Chemicals (ZDHC) level 3 certification. ICRA also takes note of the company's efforts towards new product development with focus on sustainability. The company's ability to comply with the evolving standards and the success of new product development efforts will be a rating driver from a long-term credit perspective.

Being a chemical manufacturing company, the exposure to on-site health/safety related risks remains high. The company mitigates the risk by adhering to the stipulated healthy and safety regulations/protocols; nonetheless, operational incidents leading to injuries etc. continue to be reputational risks. While the company remains exposed to the above social risks, it does not materially affect its credit profile.

Rating sensitivities

Positive factors - The ratings may be upgraded if the company demonstrates a healthy improvement in the scale and margins along with a diversification of the revenue mix and customer base on a sustained basis, while maintaining the working capital intensity and credit metrics.

Negative factors - The ratings could be downgraded if there is a sustained decline in the scale of operations or profitability. A higher-than-anticipated debt-funded capex, or a stretch in the working capital cycle weakening the liquidity position would also weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rossari. The subsidiaries and JVs of Rossari that have been considered are enlisted in Annexure II

About the company

Rossari Biotech Ltd was established as a partnership firm, named Rossari Labtech, in 2003 by Mr. Edward Menezes and Mr. Sunil Chari. It was subsequently rechristened Rossari Biotech Limited and converted to a limited company in 2009. On July 23, 2020, the company got listed on the BSE and the NSE. Rossari Biotech Limited is engaged in the manufacturing of speciality chemicals with focus on three business verticals - home, personal care and performance chemicals (HPPC), textile speciality chemicals (TSC) and animal health and nutrition (AHN). Within the three verticals, it has over 4,250 products catering to diverse end-user industries. Its manufacturing facility is at Silvassa, with an annual installed capacity of 1,20,000 MTPA. It has also set up a new unit at Dahej with an annual capacity of 1,32,500 MTPA, which was fully operational by March 2021. It also has two state-of-the-art R&D laboratories at its Silvassa plant and IIT Mumbai. The promoters of the company are technocrats and have an extensive experience of over 25 years in the chemical industry. Rossari Biotech Ltd acquired Tristar and Unitop, along with a strategic investment in Romakk in FY2022, providing synergistic benefits in terms of the diverse end-user industries.

Key financial indicators (audited)

Rossari Biotech Limited (Consolidated)	FY2022	FY2023
Operating income	1,483.0	1,655.9
PAT	96.2	106.3
OPBDIT/OI	12.0%	13.0%
PAT/OI	6.5%	6.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.0	0.3
Interest coverage (times)	14.0	9.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					July 26, 2023	September 9, 2022	July 26, 2021	July 14, 2021	-
1	**Working capital**	Long term	172.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	**Term loan**	Long term	45.00	45.00	[ICRA]AA- (Stable)	-	-	-	-
2	**Unallocated limit**	Long term	0.00	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	**Non fund-based limit**	Short term	25.61	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital	Simple
Term loan	Simple
Non-fund based limit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital**	NA	NA	NA	172.00	[ICRA]AA- (Stable)
NA	**Term loan**	September 2022	8.59%	September 2027	45.00	[ICRA]AA- (Stable)
NA	**Non-fund based limit**	NA	NA	NA	25.61	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	RBL Ownership	Consolidation Approach
Buzil Rossari Private Limited	100.00%	Full Consolidation
Rossari Personal Care Products Private Limited	100.00%	Full Consolidation
Unitop Chemicals Pvt. Ltd.	80.00%	Full Consolidation
Tristar Intermediates Private Limited	84.00%	Full Consolidation
Romakk Chemicals Private Limited	50.10%	Equity Method
Hextar Unitop SDN BHD	50.00%*	Equity Method

*Source: Company; *Holding by Unitop Chemicals Pvt Ltd*

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About ICRA Limited:

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