

July 14, 2021 ^{Revised}

Rossari Biotech Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities	82.00	[ICRA]AA- (Stable); assigned
Unallocated Limit	74.39	[ICRA]AA- (Stable); assigned
Non-fund Based Limit	23.61	[ICRA]A1+; assigned
Total	180.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings consider the extensive experience of the management and the established track record of Rossari Biotech Ltd. (Rossari) in the speciality chemical manufacturing business, spanning around two decades. The ratings consider the company's healthy financial risk profile, characterised by healthy profit margins and return indicators. Further, the capital structure and coverage indicators are strong aided by funds raised through IPO in FY2021, post which the company became debt free. The ratings also factor in the company's established market position in the textile speciality chemical industry, its strong in-house research and development (R&D) facilities, increasing diversification in product portfolio and established relationships with a wide customer base. Moreover, the ratings factor the completion of the recent equity fund raising exercise of Rs. 300 crore, which indicates the strong financial flexibility of the company as well as boosts its net worth base. While the recent announcement of acquisition of Unitop Chemicals Pvt. Ltd. (Unitop) would support the further scaling up of operations significantly as well as provide diversification benefits, the fund raised ensures the strong liquidity position even after completion of the acquisition.

The assigned ratings are, however, constrained by the exposure of Rossari's profitability to adverse movement in raw material prices, though the company has been able to pass on the price rise to its customers to a certain extent. Further, the ratings factor in the competition in the speciality chemicals segment from domestic players as well as large multinational companies, which restricts the pricing flexibility.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the speciality chemical industry and is likely to witness healthy revenue growth. Further, the credit profile of Rossari is expected to remain stable with strong liquidity position and equity funded acquisition.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of the company – The promoters are technocrats, with an extensive experience in the chemical industry spanning over three decades. Rossari is well-established in the speciality chemical business.

Established market position with diversified product portfolio – Rossari caters to three broad segments—(i.) textile speciality chemicals (TSC), (ii.) home, personal care and performance chemicals (HPPC), and (iii.) animal health and nutrition (AHN). It has a diversified product portfolio of over 2,000 products for various end-user industries, such as soaps, detergents, paints,

coatings, textile, personal care, poultry, pet grooming, etc. Over the years, Rossari has emerged as a leading player in the textile chemical industry. In the past few years, it has also gained traction in the HPPC segment, which has resulted in revenue share from the TSC division lowering from 72% in FY2018 to 36% in FY2021. Moreover, the growth in the HPPC segment somewhat offset the negative impact of lower revenues from TSC segment in FY2021. Further, Unitop had an operating income (OI) of Rs. 276 crore in FY2020 and expected OI of Rs. 300 crore in FY2021. About 60% of this revenue was generated from chemicals supplied to the agrochemicals industry, ~10% to from oil & gas, and the rest from other industries. Hence, going forward, the consolidated revenue of Rossari (including Unitop's revenue from FY2022 onwards) would have a further diversified revenue base.

Strong in-house R&D facilities for process improvement and product innovations – The company is driven by innovation and focuses on selling re-engineered, repurposed and customised formulations to meet the requirements of its customers. Its operating efficiency is supported by its strong R&D capability.

Established relationship with wide customer base of distributors as well as institutional customers – The company has a wide customer base of over 500 clients comprising reputed institutional players as well as distributors. The company has been able to maintain long-term relationships with its customers, enjoying over five years of association with more than 25% of its customer base.

Strong financial risk profile - The return indicators of the company remained healthy, with a return on capital employed (RoCE) at 30.5% in FY2021. The company has witnessed a robust growth in its operating income from Rs. 299.0 crore (restated) in FY2018 to Rs. 709.3 crore in FY2021 and it would witness healthy growth in FY2022 with completion of expansion in March 2021 and acquisition of Unitop in FY2022. In FY2021, the company has repaid its entire debt using its IPO proceeds and had surplus cash of Rs. 107 crore as on March 2021. Moreover, it has raised Rs. 300 crore in April 2021, which would largely be utilised towards its acquisition of Unitop (Rs. 276 crore in July 2021 towards 65%). Moreover, Unitop is also a debt-free entity with surplus cash on its balance sheet, which will be withdrawn by the exiting promoters prior to completion of the acquisition. The healthy growth in scale, coupled with limited dependence on external borrowings, has resulted in comfortable capital structure with no external debt outstanding as on March 2021. The debt protection metrics have also remained robust.

Credit challenges

Susceptible to volatility in sharp raw material price fluctuations and forex movement - The company's profitability remains vulnerable to volatility in raw material prices and foreign currency exchange rate fluctuations. The company's key raw materials are acrylic acid, acetic acid, silicone oil, etc, whose prices are linked to crude oil and are volatile in nature. Moreover, imports contribute ~20% to its raw material consumption and the natural hedge in the form of exports remains limited, making the company's profitability vulnerable to sharp foreign currency exchange rate fluctuations to the extent unhedged. The profit margins have improved from ~15% in FY2019 to ~17% in FY2020 and FY2021 aided by scale economies, coupled with increased sales of the higher value-added HPPC segment. Going forward, the operating margin are anticipated to remain healthy, though they remain vulnerable to sharp volatility in raw material prices and forex rates.

Intense competition – The speciality chemical industry is characterised by large established national and international players. Moreover, the TSC segment has a fragmented industry structure. Intense competition limits the pricing flexibility and restricts margins to an extent.

Liquidity position: Strong

Rossari has announced acquisition of Unitop at a valuation of Rs. 421 crore, and it would acquire 65% stake in it in FY2022. Against the acquisition cost of Rs. 275 crore, it has raised equity of Rs. 300 crore in April 2021 through preferential allotment. Moreover, it had surplus cash balance of ~Rs. 107 crore as on March 2021, hence, even after completion of the acquisition, it would have additional cash balance of ~Rs. 140 crore. Further, Rossari does not have any outstanding term loans, hence, no repayment obligations whereas the utilisation of fund-based working capital limits of Rs. 82.00 crore remains negligible.

Moreover, it does not have any major capex plan in the medium term. Hence, the liquidity position is expected to remain strong for the company.

Rating sensitivities

Positive factors – The rating could be upgraded if there is sustained significant improvement in scale and margins along with diversification of revenue mix and customer base.

Negative factors – The rating could be downgraded if there is sustained decrease in the scale of operations, or profitability, or higher-than-anticipated debt-funded capex or stretch in the working capital cycle weakening the liquidity position.

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	<p>Consolidation</p> <p>For arriving at the ratings, ICRA has combined the business and financial risk profiles of Rossari Biotech Limited (Rossari), its wholly owned subsidiary, Buzil Rossari Private Limited, and its joint venture company, Rossari Personal Care Products Private Limited (60% ownership), as the entities are owned and managed by the same promoters and are involved in related business sectors.</p> <p>ICRA has also considered the consolidated financials of Rossari and Unitop Chemicals Pvt. Ltd. effective from August 2021, since the acquisition is expected to be completed by July 2021.</p>

About the company

Rossari Biotech Ltd.: Established as the partnership firm, ‘Rossari Labtech’, by Mr. Edward Menezes and Mr. Sunil Chari in 2003, it was subsequently renamed as ‘Rossari Biotech Limited’ and converted to a limited company in 2009. On July 23, 2020, the company was publicly listed on BSE and NSE. Rossari is engaged in manufacturing speciality chemicals with its focus on three business verticals of HPPC, TSC and AHN. Within the three verticals, it has over 2,000 products catering to diverse end-user industries. Its manufacturing facility at Silvassa has a current annual installed capacity of 2,52,000 MTPA, which includes the newly commissioned unit at Dahej (Gujarat) with an annual capacity of 1,32,000 MTPA from March 2021. It also has two, state-of-the-art R&D laboratories at its Silvassa plant and at IIT Mumbai.

Unitop Chemicals Pvt. Ltd.: Incorporated in 1980, Unitop manufactures surfactants, emulsifiers and speciality chemicals, mainly catering to the agrochemicals, and oil and gas sectors. Unitop has three manufacturing sites in India with a total capacity of ~86,000 MTPA and its key facility in Dahej is in proximity to Rossari’s existing facility. As per the agreement, Rossari will be acquiring 100% of the equity capital of Unitop at a valuation of Rs. 421 crore; and 65% of the equity share capital will be acquired upon closure of the transaction and the balance 35% over the next two years.

Key financial indicators (audited)

Rossari Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	600.1	709.3
PAT (Rs. crore)	65.5	80.0
OPBDIT/OI (%)	17.5%	17.3%
PAT/OI (%)	10.9%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	0.6	0.0
Interest Coverage (times)	29.5	41.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in July 14, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Working Capital	Long Term	82.00	-	[ICRA]AA- (Stable)	-	-	-
2	Unallocated Limit	Long Term	74.39	-	[ICRA]AA- (Stable)	-	-	-
3	Non-Fund Based Limit	Short Term	23.61	-	[ICRA]A1+			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital	Very Simple
Unallocated Limit	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working Capital	NA	NA	NA	82.00	[ICRA]AA- (Stable)
NA	Unallocated Limit	NA	NA	NA	74.39	[ICRA]AA- (Stable)
NA	Non-Fund Based Limit	NA	NA	NA	23.61	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Buzil Rossari Private Limited	100%	Full Consolidation
Rossari Personal Care Products Private Limited	60%	Proportionate Consolidation
Unitop Chemicals Pvt. Ltd.	65%*	Full Consolidation

* expected to be completed in July 2021

Corrigendum

Document dated July 14, 2021 has been corrected with revisions as detailed below:

- *Key financial indicators on page no. 4 : TOL/TNW ratio updated due to incorrect ratio mentioned earlier*

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Mr. Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Sai Krishna

+91 44 4596 4300

sai.krishna@icraindia.com

Ravish Mehta

+91 79 4027 1522

ravish.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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