

# RALLIS INDIA

## RESULT UPDATE

### KEY DATA

<b>Rating</b>	<b>HOLD</b>
Sector relative	Neutral
Price (INR)	295
12 month price target (INR)	294
Market cap (INR bn/USD bn)	57/0.8
Free float/Foreign ownership (%)	49.9/4.7
<b>What's Changed</b>	
Target Price	↑
Rating/Risk Rating	—

### QUICK TAKE

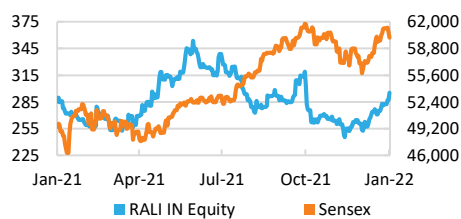
	Above	In line	Below
Profit		•	
Margins		•	
Revenue Growth	•		
Overall		•	

### FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	24,294	26,256	29,749	33,714
EBITDA	3,244	3,098	3,961	4,545
Adjusted profit	2,040	2,004	2,538	2,805
Diluted EPS (INR)	10.5	10.3	13.0	14.4
EPS growth (%)	23.7	(1.8)	26.7	10.5
RoAE (%)	14.4	12.1	14.1	14.2
P/E (x)	28.1	28.7	22.6	20.5
EV/EBITDA (x)	16.8	17.7	13.8	11.9
Dividend yield (%)	1.2	1.2	1.2	1.2

### PRICE PERFORMANCE



#### Explore:



Financial model



Podcast



Corporate access



Video

## Exports driving momentum

Rallis India (Rallis) reported in-line Q3FY22 results with sales/EBITDA growth of 10%/12% YoY. While growth has been largely driven by pricing hikes taken in view of escalation of input prices, the pickup in exports business is a key positive. The domestic crop care business turned in 9% YoY growth despite weakness in southern markets. Seeds continues to remain under pressure (down 31% YoY).

Over Q4FY22, good reservoir levels and favourable commodity prices are likely to drive earning momentum. However, raw material issues from China continue to constrain the supply side. We also remain watchful of execution of capex strategy. Maintain 'HOLD' with a TP of INR294 based on 22x Q1FY24E EPS.

### Crop protection: Realisation-led gains

Rallis's domestic crop care business delivered 9% YoY growth driven by pricing hikes. Unseasonal rains as well as lower pest infestation in southern markets impacted overall volumes during the quarter. However, with good reservoir levels in place, the company expects Q4FY22 to be positive. In Exports, the momentum sustained amid favourable commodity prices. During the quarter, the company delivered a strong 19% YoY sales growth aided by pricing gains. Revival in Metribuzin demand is noteworthy. The company's contract manufacturing business continues to face the headwinds from covid-19. However, it has been trying to convert order enquiries. Availability of raw material continues to be a concern given the company's raw material exposure to China is more than 50%.

### Seeds: Still under pressure; capex outlay positive

The seeds industry continued to face headwinds due to restrictions on sale of paddy and maize hybrids in some states. Accordingly, Rallis registered a 31% YoY plunge in revenue during Q3FY22. The company is trying to improve product portfolio pertaining to rabi. The company's Innovation Turnover Index (ITI) remains 11%. Going forward, Rallis's strategy remains on commercializing new Active Ingredients (AIs), new formulations, etc.

### Outlook and valuation: Capex execution critical; maintain 'HOLD'

Rallis has been facing headwinds due to limited supply of raw materials along with higher logistic costs. Going forward, while rabi looks stable with acreage up more than 1% YoY, a sharp increase in input costs is likely to keep margins under pressure. Maintain 'HOLD' with a TP of INR294 (22x Q1FY24E EPS).

### Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	6,281	5,705	10.1	7,278	(13.7)
EBITDA	674	601	12.1	880	(23.4)
Adjusted Profit	396	456	(13.3)	565	(30.0)
Diluted EPS (INR)	2.0	2.3	(13.3)	2.9	(30.0)

## Financial Statements

### Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	24,294	26,256	29,749	33,714
Gross profit	9,542	10,231	12,168	13,991
Employee costs	2,160	2,363	2,677	3,034
Other expenses	4,138	4,770	5,530	6,412
EBITDA	3,244	3,098	3,961	4,545
Depreciation	641	847	1,067	1,287
Less: Interest expense	68	54	61	68
Add: Other income	253	475	550	550
Profit before tax	2,789	2,672	3,384	3,740
Prov for tax	749	668	846	935
Less: Other adj	0	0	0	0
Reported profit	2,155	2,004	2,538	2,805
Less: Excp.item (net)	115	0	0	0
Adjusted profit	2,040	2,004	2,538	2,805
Diluted shares o/s	194	194	194	194
Adjusted diluted EPS	10.5	10.3	13.0	14.4
DPS (INR)	3.5	3.5	3.5	3.5
Tax rate (%)	26.9	25.0	25.0	25.0

### Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
India rev. growth(%)	14.2	12.0	13.0	13.0
Export rev. growth(%)	2.8	12.0	15.0	15.0
Seed rev. growth(%)	11.6	(10.0)	10.0	10.0
EBITDA margin (%)	13.4	11.8	13.3	13.5
Net profit margin (%)	8.4	7.6	8.5	8.3
Revenue growth (% YoY)	7.9	8.1	13.3	13.3
EBITDA growth (% YoY)	23.3	(4.5)	27.9	14.7
Adj. profit growth (%)	23.7	(1.8)	26.7	10.5

### Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(6.0)	7.0	6.0	6.0
Repo rate (%)	3.5	3.5	4.0	4.0
USD/INR (average)	75.0	73.0	72.0	72.0
Org.manure growth(%)	15.0	8.0	15.0	15.0
Debtor days	64.0	57.0	55.0	55.0
Inventory days	180.9	181.8	181.4	179.5
Payable days	153.0	141.0	140.0	138.0
Working capital days	92.0	98.0	96.0	96.0

### Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	28.1	28.7	22.6	20.5
Price/BV (x)	3.6	3.4	3.1	2.8
EV/EBITDA (x)	16.8	17.7	13.8	11.9
Dividend yield (%)	1.2	1.2	1.2	1.2

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	194	194	194	194
Reserves	15,714	16,898	18,616	20,602
Shareholders funds	15,908	17,092	18,811	20,797
Minority interest	7	7	7	7
Borrowings	378	603	673	752
Trade payables	5,961	6,410	7,032	7,889
Other liabs & prov	3,416	3,421	3,805	4,241
Total liabilities	25,886	27,749	30,544	33,902
Net block	3,829	4,982	5,915	6,627
Intangible assets	2,481	2,481	2,481	2,481
Capital WIP	1,645	1,645	1,645	1,645
Total fixed assets	7,955	9,108	10,040	10,753
Non current inv	32	32	32	32
Cash/cash equivalent	3,354	3,155	3,440	4,098
Sundry debtors	4,063	4,201	4,760	5,394
Loans & advances	1,837	1,860	1,965	2,084
Other assets	8,372	9,121	10,034	11,267
Total assets	25,886	27,749	30,544	33,902

### Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	2,155	2,004	2,538	2,805
Add: Depreciation	641	847	1,067	1,287
Interest (net of tax)	38	41	45	51
Others	682	206	311	402
Less: Changes in WC	(602)	(455)	(571)	(693)
Operating cash flow	2,168	1,975	2,544	2,917
Less: Capex	(1,685)	(2,000)	(2,000)	(2,000)
Free cash flow	483	(25)	544	917

### Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	14.4	12.1	14.1	14.2
RoCE (%)	18.4	16.0	18.5	18.6
Inventory days	181	182	181	179
Receivable days	64	57	55	55
Payable days	153	141	140	138
Working cap (% sales)	21.2	21.4	20.8	20.4
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Interest coverage (x)	38.5	41.5	47.8	48.1

### Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	23.7	(1.8)	26.7	10.5
RoE (%)	14.4	12.1	14.1	14.2
EBITDA growth (%)	23.3	(4.5)	27.9	14.7
Payout ratio (%)	40.2	40.9	32.3	29.2

## Conference call takeaways

### Q3FY22 highlights

- Q3FY22 remained challenging for domestic business. Unseasonal rains lowered the demand of agri-inputs in southern markets.
- Company is facing headwinds of constraints in raw material supply from China.
- International business delivered 19% YoY growth driven by favorable conditions in Brazil/Europe. Spurt in crop prices also benefitted company in taking adequate price hikes.
- Domestic business delivered 9% growth despite weakness in some key agri-markets.
- Telangana & Andhra Pradesh markets saw big impact due to crop rotation policy. Hybrid seeds recorded a 31%YoY de-growth
- Company holds good inventory for meeting customer demands during Q4FY22
- Focus of company remains in introducing newer 9(3) and 9(4) products.
- R&D based crop nutrition focused on soluble fertilizer. Efforts on widening crop protection range.
- Market share in crop protection to improve with new products in place. Expanding network by adding distributors
- Q4 product portfolio is different from Q3. Mustard remains an important category for seed segment in rabi.
- Challenges remains from china in procuring raw materials. Rallis is trying to build strategic inventory along with focus on tie-up with local suppliers.
- Near term: ROCE still remains a concern. Company is deploying INR 2.5bn capex for FY22 and FY23
- ITI Index: introduced newer products but challenges still remains in scaling them. Hence, despite good number of launches, ITI still remains at 11%
- Sales return in H1FY22 was higher due kharif return. Q3FY22: stable situation.
- Herbicide-focus area. Introduced new herbicide product.

### Domestic

- 9% YoY growth driven by improved product mix.
- Introduced 2 new crop protection taking overall tally to 10 product launches in FY22 with 6 in crop protection and 4 in crop nutrition.
- Q4FY22-stable quarter expected.
- Trend is up on overall basis. Elevated price levels still remains. Farmers can switch to alternative products if prices remains elevated.
- Inventory cost on higher side. Delayed shipment-stoppage in Chemical parks.

- Total consumption of pesticides-20% cost to farmers. Formulation becomes expensive-he can choose amongst different options.

## Seeds

- Improving product mix with newer set of products.
- Illegal cotton impacting growth. Taking cognizance of same and diversifying product basket in vegetables, mustard, etc.

## International

- Metribuzin product has seen signs of demand revival. Company's plant is running at full capacity.
- Pendimethalin and Hexaconazole-strong demand in global markets.
- New AI to commercialize next year. Increasing formulation share.
- PEKK business impacted. CRAMS-small contract by Q4FY22 (not material). Will start reflecting in numbers in FY24
- Q4FY22 looks promising with demand outlook good. Company is introducing newer products while increasing formulation share.
- 19% YoY growth is aided by pricing hikes. Favorable crop price has helped company to take pricing hikes in key agri-markets of Europe/Brazil
- PEKK-sales were zero in FY21. Revival of product is dependent on demand from airline industry.

## Capex

- FY22: INR 2.5bn, FY23: INR 2.5bn

## Margins

- Taken pricing hikes to protect margins. However, raw material prices still continues to remain on higher side.
- Gross margins: pressure is expected to be there in Q4FY22

## Exhibit 1: Financial snapshot (INR mn)

Year to March	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ	YTD' FY22	FY22E	FY23E	FY24E
Revenues	6,281	5,705	10.1	7,278	(13.7)	20,964	26,256	29,749	33,714
Raw material	3,755	3,507	7.1	4,641	(19.1)	12,925	16,025	17,580	19,723
Staff costs	623	538	15.7	618	0.7	1,839	2,363	2,677	3,034
Others	1,229	1,058	16.2	1,139	8.0	3,430	4,770	5,530	6,412
Total expenditure	5,607	5,104	9.9	6,398	(12.4)	18,195	23,158	25,788	29,169
EBITDA	674	601	12.1	880	(23.4)	2,769	3,098	3,961	4,545
Depreciation	184	110	66.8	177	3.8	547	847	1,067	1,287
EBIT	490	491	(0.2)	702	(30.3)	2,223	2,251	2,894	3,258
Interest	14	8	77.2	12	13.8	36	54	61	68
Add: Other income	55	76	(28.1)	75	(26.7)	200	475	550	550
Add: Prior period items									
Profit Before Tax	531	559	(5.1)	765	(30.6)	2,387	2,672	3,384	3,740
Less: Provision for Tax	135	164	(17.7)	201	(32.6)	603	668	846	935
Less: Minority Interest	0	0	NA	-0		0	8	8	8
Add: Share of profit from associates									
Add: Exceptional items (net of tax)	0	61		0		0	0	0	0
Reported Profit	396	456	(13.3)	565	(30.0)	1,784	2,004	2,538	2,805
Adjusted Profit	396	395	0.1	564	(29.9)	1,784	2,004	2,538	2,805
Equity capital (FV INR 1)	194	194		194		194	194	194	194
No. of Diluted shares outstanding (mn)	194	194		194		194	194	194	194
Adjusted Diluted EPS	2	2	0.1	3	(29.9)	9	10	13	14
P/E (x)							27.3	21.5	19.5
EV/EBITDA (x)							16.8	13.0	11.2
ROE(%)							12.1	14.1	14.2
As % of net revenues									
Raw material	59.8	61.5		63.8		61.7	61.0	59.1	58.5
Staff expenses	9.9	9.4		8.5		8.8	9.0	9.0	9.0
Other expenses	19.6	18.5		15.6		16.4	18.2	18.6	19.0
EBITDA	10.7	10.5		12.1		13.2	11.8	13.3	13.5
Net profit	6.3	6.9		7.8		8.5	7.6	8.5	8.3

Source: Company, Edelweiss Research

## Company Description

Rallis is a Tata Group owned Agrochemical Company and a key player in India. Tata Chemicals holds 50.09% in Rallis India. Company has employee strength of 909 as on March 31, 2015 and have plants located at Akola, Ankleshwar, Ratnagiri and Bharuch. Agrochemical and seed business constitute ~83% and ~17% in consolidated FY15 sales. Company acquired Bangalore based seed players Metahelix during FY11 and entered into an agreement to acquire 51% stake in 'Zero Waste Agro Organics' in April 2012. Rallis has broad and diversified product portfolio in terms of crops as well as type of pesticide. According to customer engagement survey by Gallop, Company has 7 of the top 12 brands when it comes to awareness of brands in Indian agrochemical market. Rallis has strong relationship with global majors and entered into several alliances such as Dupont, Syngenta, Bayer, among others.

## Investment Theme

Rallis is an established agrochemical player in India. The company, with market share of ~10% is well placed to capture emerging opportunities in the domestic agrochemical market on back of healthy distribution network, branded farm solutions and launch of new products. The newly commissioned Dahej SEZ facility is anticipated to boost export sales, consequently reducing its domestic market dependence.

The organised hybrid seed market is expected to post 12-15% CAGR in the coming years. India has a dismal ~2mha of the total 40mha under hybrid seed in rice crop, thus leaving enough room for penetrating untapped markets. Post acquisitions of Metahelix, Rallis is well equipped to ride this surge armed with the former's formidable R&D capabilities and robust product pipeline.

## Key Risks

**Weather:** Crop protection industry faces the risks of seasonal weather factors. The weather can affect the presence of pest infestations as well as affect the demand for crop-protection products. In the domestic market, sales are highly seasonal, mainly during the monsoon. Any adverse change in the weather will have a negative effect on the sales.

**GM crops:** The usage of crop protection products is significantly less for GM crops. Hence, growth and acceptance of GM crops by consumers may have an adverse effect on Rallis' business.

**Overseas regulation:** Rallis is registering its products in the overseas market. Any negative measure by the respective countries can affect the company's growth adversely

## Additional Data

### Management

CEO	Sanjiv Lal
CFO	Subhra Gourisaria
COO	S. Nagarajan
Other	
Auditor	B S R & Co.

### Holdings – Top 10\*

	% Holding		% Holding
SBI AMC	3.42	HDFC Life	1.77
Nippon AMC	3.23	STEINBERG	1.58
Tata AMC	2.02	Blackrock	0.71
Invesco AMC	1.97	Dimensional	0.61
Vanguard	1.93	Aditya Birla AM	0.59

\*Latest public data

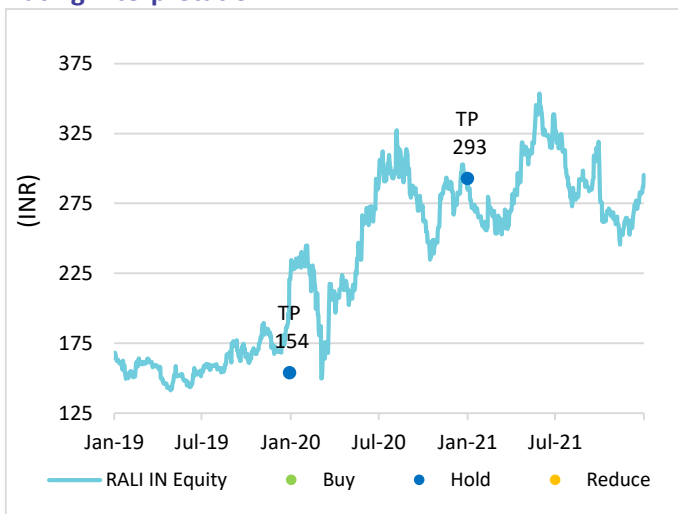
### Recent Company Research

Date	Title	Price	Reco
20-Oct-21	Erratic rains dampen party; <i>Result Update</i>	304.1	Hold
22-Jul-21	Domestic segment drives growth ; <i>Result Update</i>	327.1	Hold
09-Jun-21	Rising input prices to dent margin; <i>Company Update</i>	339.3	Hold

### Recent Sector Research

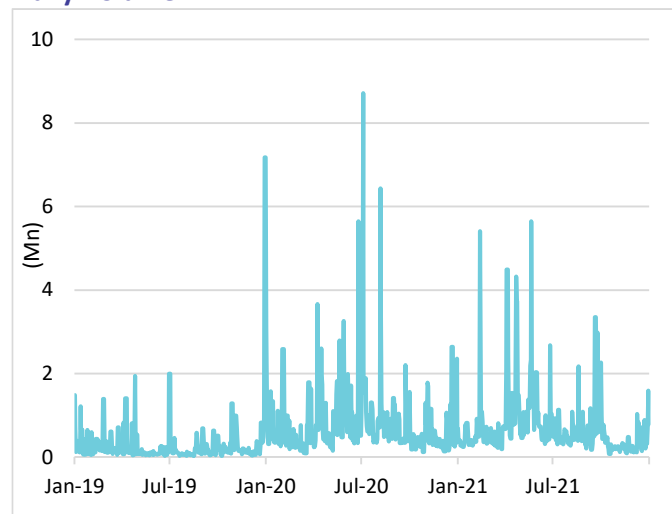
Date	Name of Co./Sector	Title
13-Jan-22	Agri Inputs	Pricing led growth to drive earnings; <i>Sector Update</i>
06-Jan-22	Agri Inputs	Rabi season: Progressing well on track ; <i>Sector Update</i>
18-Nov-21	Agri Inputs	Muted kharif dented growth; <i>Sector Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	189	53	18	261
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	236	38	4	278

\*1 stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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