

International market stays key focus area, going ahead

Rallis reported a subdued financial performance with revenue down 8.5% YoY to ₹ 339.7 crore, primarily due to the poor show from the standalone business (down 9% YoY, ~94% of consolidated revenue). Revenues from the standalone business were impacted largely due to muted sales growth from domestic market but decent growth from international market arrested decline, to some extent. On the other hand, Metahelix reported stable growth of 2.3% YoY to ₹ 22.5 crore. Adjusting one-time charge of ₹ 7.2 crore towards retirement benefits in employee expenses and ₹ 5 crore towards contribution to electoral fund, standalone EBITDA was at ₹ 31 crore (down 27.4% YoY) while Metahelix registered operational loss of ₹ 13 crore against a loss of ₹ 7.9 crore in Q4FY18. Higher other income (₹ 11 crore vs. ₹ 1.6 crore in Q4FY18) helped the company to maintain its bottomline performance. Adjusted consolidated PAT was at ₹ 13.6 crore (-31.3% YoY).

New capacity to fuel growth in international market for Rallis

Rallis has been expanding its capacity in Metribuzin, which is considered one of the major revenue contributors in the company's international market. The management highlighted that dicamba and glyphosate have some resistance issue, which translates into better volume growth outlook for Rallis since it holds 12% global Metribuzin market share. Further, the CRAMS business has also been witnessing decent growth, which can aid overall growth in the years to come.

Ongoing reforms to aid domestic market growth likely to gain momentum

Increasing distributors from 3500 currently to 4200 in FY20 along with better incentive scheme from April 2019 are likely to deliver stable/decent growth in domestic market. Further, increasing presence in Kharif crops for Metahelix can diversify the revenue stream, to a certain extent, in years to come. The company has been developing its portfolio in cotton and vegetable seeds, translating to a better growth outlook for Metahelix in the medium to long run.

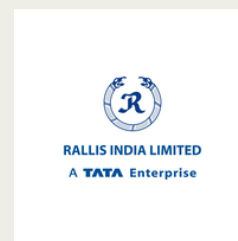
Valuation & Outlook

Increasing demand in metribuzin along with key products like pendimethalin and acephate are likely to drive international market growth. Further, capital investment in backward integration for some of the active pharma ingredient (API) is expected to improve the operational performance in the medium to long run. We lowered our P/E multiple to 15x on FY21E (implied EV/EBITDA of ~8.5x) due to inventory built up in the system and poor sales outlook from domestic market. We arrived a target price of ₹ 155 and assigned **HOLD** rating on the stock.

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,678	1,795	1,984	2,187	2,442	11.0%
EBITDA	263	264	241	280	329	16.8%
EBITDA Margins (%)	15.7	14.7	12.1	12.8	13.5	
Net Profit	170	167	155	167	201	14.1%
EPS (₹)	8.7	8.6	8.0	8.6	10.4	
P/E	16.8	17.5	18.8	17.4	14.5	
RONW (%)	15.6	14.0	12.0	12.1	13.3	
ROCE (%)	19.9	19.1	16.6	17.2	18.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 2888 crore
Total Debt (FY19P)	₹ 69 crore
Cash and Investments (FY19P)	₹ 151 crore
EV	₹ 2806 crore
52 week H/L	240 / 146
Equity capital	₹ 19.5 crore
Face value	₹ 1

Key Highlights

- New capacity to fuel growth in international market for Rallis
- Ongoing reforms to aid domestic market growth likely to gain momentum
- Maintains HOLD rating on the stock with a target price of ₹ 155.

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Exhibit 1: Variance Analysis

₹ Crore	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	339.7	399.2	371.1	-8.5	417.4	-18.6	Sales growth remained subdued primarily due to poor growth from India standalone business
CGOS	193.0	233.5	202.9	-4.9	252.6	-23.6	Lower than estimated standalone sales resulted lower raw material cost
Employee Cost	48.1	45.4	41.9	14.9	44.4	8.3	One off to the tune of ₹ 7.2 crore towards retiral benefit
Other operating expense	91.8	88.8	91.5	0.3	92.7	-1.0	₹ 5 crore one off related to electoral funding resulted higher other expenses
Total Expenditure	332.9	367.8	336.3	-1.0	389.7	-14.6	
EBITDA	6.8	31.4	34.8	-80.5	27.6	-75.4	Adjusted EBITDA stands at ₹ 19 crore, largely impacted due to poor operational performance from both standalone and metahelix
EBITDA Margin (%)	2.0	7.9	9.4	-738 bps	6.6	-462 bps	
Depreciation	10.5	12.1	10.0	4.8	12.1	-12.9	
Interest	1.7	1.8	1.2	42.2	1.8		
Other Income	11.0	5.7	1.6	593.0	5.9	85.6	Other income was ahead of estimates due to higher fx gain
PBT	5.6	23.1	25.2	-77.8	19.6	-71.5	
Taxes	4.2	6.3	5.6	-24.4	5.9	-27.8	
PAT	1.4	16.8	19.6	-93.1	13.8	-90.2	
Minority Interest	-0.2	0.0	-0.2		-0.1		
Net Reported PAT	1.5	16.8	19.8	-92.3	13.9	-89.0	
Key Metrics							
Standalone Sales (₹ crore)	317.7	376.6	349.1	-9.0	388.2	-18.2	Standalone business impacted due to subdued growth in India market
Subsidiaries Sales (₹ crore)	22.0	22.5	22.0	0.1	29.1	-24.3	Metahelix sales were almost in line with our estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20E		% Change	FY21E	Comments
	Old	New		Introduced	
Revenue	2,331	2,187	-6.19	2,442	Change in FY20 estimates to factor in subdued growth from India standalone business.
EBITDA	338.6	280	-17.23	329	
EBITDA Margin (%)	14.5	12.8	-171 bps	13.5	
PAT	206	167	-18.70	201	
EPS (₹)	8.0	8.6	8.20	10.4	

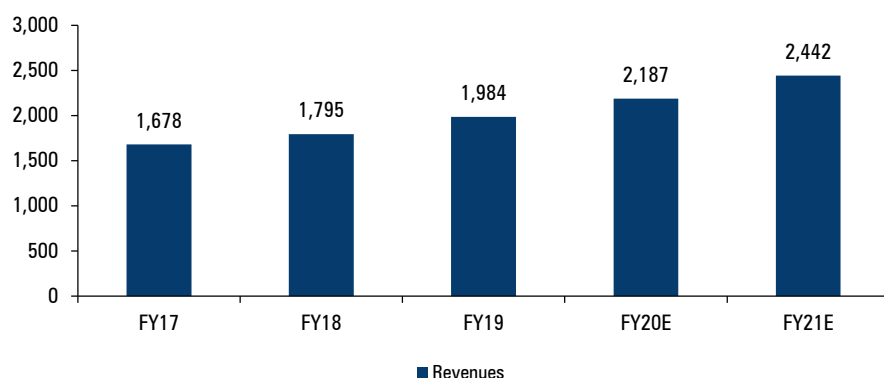
Source: Company, ICICI Direct Research

Conference Call Highlights

- Rallis plans to launch 11-12 new products in the coming two to three years of which five new products are expected to be launched in FY20
- The seed business is largely concentrated in the Kharif season. However, the company plans to expand into Rabi through alliances. The management has been targeting cotton and vegetable seeds
- Revenue from international market for FY19 grew ~36% YoY to ₹ 650 crore. Going ahead, increasing capacity in metribuzin along with ramping up utilisation in pendimethalin are expected to drive international market sales
- Resistance related issues in Dicamba and Glyphosate are expected to drive Metribuzin sales, going ahead
- Revenue from the domestic market remained flat largely due to pest related issue. This resulted in higher inventory in the system
- Ongoing efforts towards increasing presence into northern and eastern market along with introduction of new products for the Rabi season are likely to diversify revenue stream for India business in the medium to long run
- Rallis has introduced a new incentive scheme for dealers in April 2019, which will assist in driving domestic market growth. Further, it is planning to increase sole stockiest (SS)/preferred dealers (PD) by 600 in FY20 and retailers by 7000 from 35000 currently. This could translate to a better growth outlook for the India market
- Capex of ₹ 800 crore has been earmarked, which will be spent in the next three to four years. The capex is spread into three phases. The company has been expanding capacity of metribuzin along with setting up formulation plant at Dahej. Further, it is planning to invest ₹ 140 crore into backward integration for few of the API

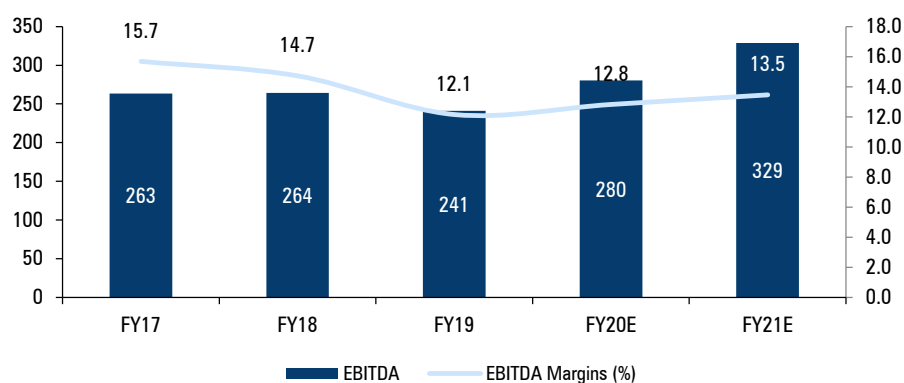
Financial story in charts

Exhibit 3: Slowdown in India standalone business to impact top-line



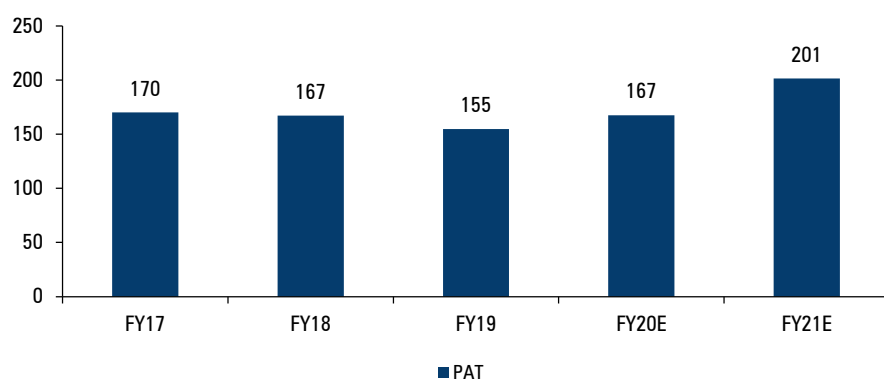
Source: Company, ICICI Direct Research

Exhibit 4: OPM expected to remain between 12-14% going ahead



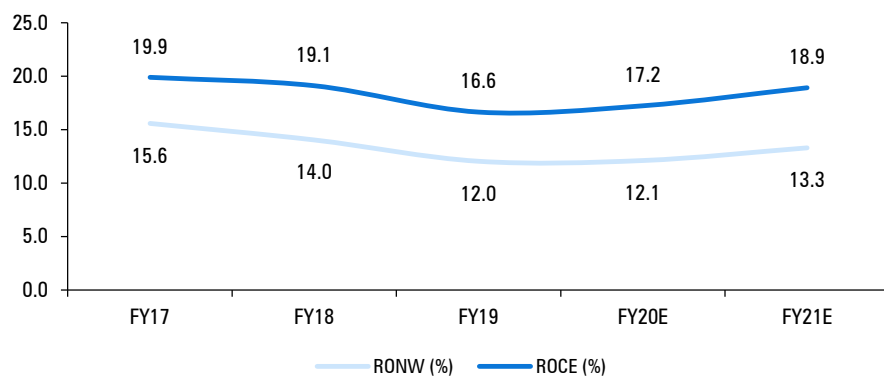
Source: Company, ICICI Direct Research

Exhibit 5: PAT trend



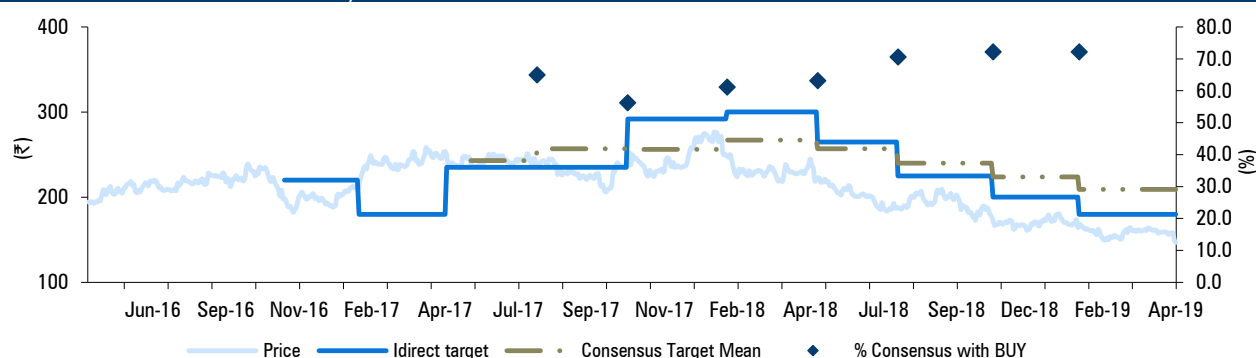
Source: Company, ICICI Direct Research

Exhibit 6: RONW & ROCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Tata Group of Companies	31-Mar-19	0.5	97.4	0.0
2	Jhunjhunwala (Rakesh Radheshyam)	31-Mar-19	0.1	18.0	0.0
3	HDFC Life Insurance Company Limited	31-Mar-19	0.0	7.4	0.5
4	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.0	5.6	1.6
5	Tata Asset Management Limited	31-Mar-19	0.0	5.5	1.6
6	HDFC Asset Management Co., Ltd.	31-Dec-17	0.0	5.4	2.1
7	Franklin Templeton Asset Management	31-Mar-19	0.0	4.2	0.0
8	Sundaram Asset Management Compan	31-Mar-19	0.0	3.0	0.0
9	Invesco Asset Management (India) Priv	31-Mar-19	0.0	2.9	0.2
10	Reliance Nippon Life Asset Managemer	31-Mar-19	0.0	2.6	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor Name	Value (US\$ M)	Shares (M)	Investor Name	Value (US\$ M)	Shares (M)
SBI Funds Management Pvt. Ltd.	+3.81M	+1.61M	Aditya Birla Sun Life AMC Limited	-0.8	-0.3
Tata Asset Management Limited	+3.78M	+1.60M	Van Eck Associates Corporation	-0.1	0.0
HDFC Life Insurance Company Limited	+1.19M	+0.50M	BlackRock Institutional Trust Company, N.A.	-0.1	0.0
Invesco Asset Management (India) Private Limited	+0.54M	+0.23M	Bessemer Trust Company, N.A. (US)	0.0	0.0
BlackRock Asset Management Ireland Limited	+0.01M	+0.01M	BlackRock Advisors (UK) Limited	0.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	50.1	50.1	50.1	50.1	50.1
FII	3.9	4.0	4.1	3.9	4.0
DII	18.4	17.3	16.9	18.8	20.0
Others	27.6	28.6	29.0	27.2	25.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement					
	₹ crore				
(Year-end March)	FY17	FY18	FY19P	FY20E	FY21E
Total Operating Income	1678	1795	1984	2187	2442
Growth (%)	9.8	6.9	10.5	10.2	11.7
Raw Material Expenses	950	1,023	1,172	1,285	1,430
Employee Expenses	146	164	181	196	213
Other Operating Expense	318	344	391	425	471
Total Operating Expenditure	1,415	1,530	1,743	1,906	2,114
EBITDA	263	264	241	280	329
Growth (%)	15.0	0.3	-8.8	16.3	17.3
Depreciation	47	46	46	52	58
Interest	7	4	5	11	11
Other Income	13	13	31	22	28
PBT	222	227	220	239	288
Exceptional Item	158	0	0	0	0
Total Tax	83	60	65	72	86
PAT	297	167	155	167	201
Minority Interest	0	0	0	0	0
Reported Net Profit	297	167	155	167	201
Normalized Net Profit	170	167	155	167	201
Growth (%)	18.7	-1.7	-7.4	8.2	20.3
Normalized EPS (₹)	8.7	8.6	8.0	8.6	10.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement					
	₹ crore				
(Year-end March)	FY18	FY19P	FY20E	FY21E	
Normalized PAT	167	155	167	201	
Add: Depreciation	46	46	52	58	
(Inc)/dec in Current Assets	-373	-158	-42	-157	
Inc/(dec) in CL and Provision	218	46	86	90	
Others	4	5	11	11	
CF from operating activities	62	94	274	203	
(Inc)/dec in Investments	122	-1	0	0	
(Inc)/dec in Fixed Assets	-66	-60	-100	-100	
Others	17	-5	0	0	
CF from investing activities	72	-66	-100	-100	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	-19	49	-2	-2	
Dividend paid & dividend tax	-58	-58	-70	-70	
Inc/(dec) in Share Cap	0	0	0	0	
Others	-34	-6	-11	-11	
CF from financing activities	-111	-16	-83	-83	
Net Cash flow	24	12	91	20	
Opening Cash	10	33	46	137	
Closing Cash	33	46	137	156	

*calculated, Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet					
	₹ crore				
(Year-end March)	FY17	FY18	FY19P	FY20E	FY21E
Liabilities					
Equity Capital	19	19	19	19	19
Reserve and Surplus	1,092	1,171	1,267	1,364	1,495
Total Shareholders funds	1,111	1,191	1,286	1,383	1,515
Total Debt	39	20	69	67	65
Deferred Tax Liability	50	41	38	38	38
Minority Interest / Others	6	7	8	8	8
Total Liabilities	1,206	1,258	1,401	1,497	1,626
Assets					
Gross Block	680	741	798	878	978
Less: Acc Depreciation	317	363	409	461	518
Net Block	363	378	389	417	460
Capital WIP	42	47	51	70	70
Total Fixed Assets	405	425	439	487	530
Liquid Investments	226	104	106	106	106
Other Investments	19	4	4	4	4
Goodwill on Consolidation	196	196	196	196	196
Inventory	394	572	674	659	736
Debtors	260	400	449	539	602
Loans and Advances	115	165	173	142	159
Other Current Assets	1	6	5	2	2
Cash	10	33	46	137	156
Total Current Assets	780	1,176	1,346	1,479	1,656
Creditors	401	621	642	719	803
Provisions	121	120	145	153	159
Current Liabilities & Prov	523	740	786	872	962
Net Current Assets	257	436	560	607	694
Others Assets	103	93	97	97	97
Application of Funds	1,206	1,258	1,401	1,497	1,626

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios					
(Year-end March)	FY18	FY19P	FY20E	FY21E	
Per share data (₹)					
EPS	8.6	8.0	8.6	10.4	
Cash EPS	11.0	10.3	11.3	13.3	
BV	61.2	66.1	71.1	77.9	
DPS	2.5	2.5	3.0	3.0	
Cash Per Share (Incl Invst)	1.7	2.4	7.0	8.0	
Operating Ratios (%)					
EBITDA Margin	14.7	12.1	12.8	13.5	
PBT / Total Op. income	12.6	11.1	10.9	11.8	
PAT Margin	9.3	7.8	7.7	8.2	
Inventory days	116.4	123.9	110.0	110.0	
Debtor days	81.3	82.6	90.0	90.0	
Creditor days	126.2	118.0	120.0	120.0	
Return Ratios (%)					
RoE	14.0	12.0	12.1	13.3	
RoCE	19.1	16.6	17.2	18.9	
RoIC	27.7	21.4	25.4	26.9	
Valuation Ratios (x)					
P/E	17.5	18.8	17.4	14.5	
EV / EBITDA	10.6	11.8	9.8	8.3	
EV / Net Sales	1.6	1.4	1.3	1.1	
Market Cap / Sales	1.6	1.5	1.3	1.2	
Price to Book Value	2.5	2.3	2.1	1.9	
Solvency Ratios					
Debt/EBITDA	0.1	0.3	0.2	0.2	
Debt / Equity	0.0	0.1	0.0	0.0	
Current Ratio	1.6	1.7	1.6	1.6	
Quick Ratio	0.8	0.8	0.8	0.8	

Source: Company, ICICI Direct Research

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