

## Covid-19 related logistical challenges impact performance

Rallis reported muted topline growth of 2% YoY to ₹ 346 crore. Growth was hampered by a delay in dispatches for both domestic and international market post lockdown. The delay in dispatches for the domestic market remained at ₹ 16 crore while the same for the international market was at ₹ 53 crore. The crop protection segment posted growth of 1.2% YoY to ₹ 322 crore while the seed business remained at ₹ 24 crore (+4.3% YoY). Higher other expenses due to one-time Covid-19 related charges along with forex MTM impacted EBITDA, which came in at a loss of ₹ 10 crore against profit of ₹ 7 crore in Q4FY19. Crop protection EBITDA remained at ₹ 6 crore against ₹ 20 crore in Q4FY19 while the same for the seed business was a loss of ₹ 19 crore against a loss of ₹ 14 crore in Q4FY19. Adjusting gain on sale of flats to the tune of ₹ 11.4 crore, bottomline was at a loss of ₹ 10.7 crore against profit of ₹ 1.4 crore in Q4FY19.

## CRAMS business likely to aid business outlook in long run

Rallis has been doing CRAMS for PEKK and Metconazole. The management mentioned that PEKK is largely consumed in aerospace. Given that the airline industry has been impacted by Covid-19, it can face demand side challenges for the former. However, there is high probability of large players finding new source of supply given that the world has already seen two epidemics from China in the last decade leading to supply side challenges. Hence, India being a cost effective source for both pharma and agrochemical is expected to witness better CRAMS opportunities. We expect CRAMS presently constitutes around mid-teens of the company's revenue. Any progress towards new wins can meaningfully improve the business outlook of the company, going ahead.

## Revised credit terms to improve cash conversion cycle

The company revised its credit terms last year, which led the working conversion cycle to improve from 24% of sales to 18% of sales. This resulted in the company generating incremental cash to the tune of ₹ 347 crore in FY20 from ₹ 152 crore. The credit period is expected to increase, supporting demand growth this fiscal. However, the same can be controlled from the next fiscal. We expect such cash generation would likely to help the company to incur capex from internal accruals, going ahead.

## Valuation & Outlook

We value the company at 19x PER of FY22E earnings estimates (implied EV/EBITDA 12x FY22E). We arrive at a target price of ₹ 240. We have a **HOLD** recommendation on the stock.



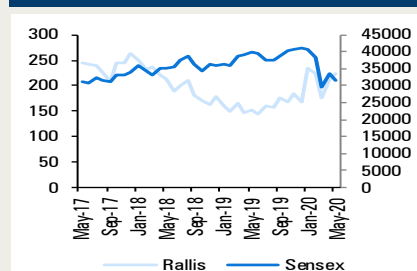
### Particulars

Particular	Amount
Market Capitalization	₹ 4356 crore
Total Debt (FY20P)	₹ 62 crore
Cash and Investments (FY20P)	₹ 347 crore
EV	₹ 4071 crore
52 week H/L	256 / 127
Equity capital	₹ 19.5 crore
Face value	₹ 1

### Key Highlights

- CRAMS business likely to aid business outlook in long run
- Revised credit terms to improve Cash conversion cycle
- Maintain HOLD rating on stock with a target price of ₹ 240

### Price Performance



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### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,795	1,984	2,252	2,432	2,724	10.0%
EBITDA	264	241	259	287	347	15.7%
EBITDA Margins (%)	14.7	12.1	11.5	11.8	12.8	
Adjusted Net Profit	167	155	173	197	246	19.1%
Adjusted EPS (₹)	8.6	8.0	8.9	10.1	12.6	
P/E	26.1	28.1	24.8	22.2	17.7	
RONW (%)	14.0	12.1	12.4	12.6	14.1	
ROCE (%)	19.1	16.6	15.7	16.3	18.1	

**Exhibit 1: Change in estimates**

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,564	2,432	-5.2	2,877	2,724	-5.3	FY21E downgraded due to Covid-19 related challenges.
EBITDA	328	287	-12.6	386	347	-10.1	
EBITDA Margin (%)	12.8	11.8	-100 bps	13.4	12.8	-67 bps	
PAT	216	197	-9.1	257	246	-4.5	
EPS (₹)	11.1	10.1	-8.9	13.2	12.6	-4.2	

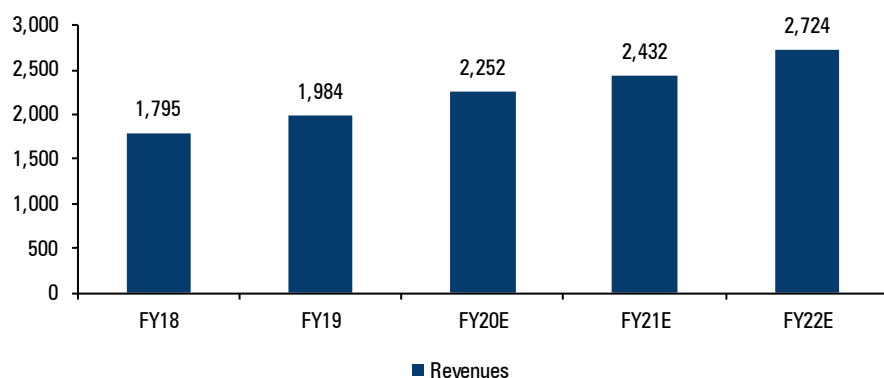
Source: Company, ICICI Direct Research

## Conference Call Highlights

- There has been a gradual resumption of work across the country post the lockdown. The company received approval to commence work at Dahej, Lote and Ankaleshwar from April 20
- Rallis received FDA approval for alcohol based sanitisers. It produced 140 KL and distributed it free of cost
- The technical supplies from China have resumed
- The Rabi season played out well due to sufficient water availability. Normal monsoon should do well for Kharif season ahead
- The company plans to launch at least two new products every year. It had launched six products in FY20. Three were 9(3) while others were co-marketing
- It has been working towards widening distribution reach. Recently revised trade terms have helped the company to generate decent FCF this fiscal
- International business – The company has two molecules under CRAMS. It has been planning to tie up with global innovators to expand CRAMS portfolio. Around US\$2 billion CRAMS opportunity is likely to come from Japanese companies
- Going ahead, strengthening alliances, branded formulation under co marketing arrangements along with registering own brands and increase formulation revenue would be key triggers to scale up the business ahead
- There was an MTM loss of ₹ 9.9 crore in Q4FY20 while another ₹ 3.5-4 crore provision impact was due to Covid-19
- The company continues to face pricing pressure for Metribuzin, pendimethalin
- It has not seen any cancellation of international business orders
- Change in the product mix for domestic market led to better gross margins in Q4FY20
- Better cash conversion during FY20 was on account of an increase in the credit period for FY20 vs. FY19, early payment incentives and penalty of delayed payments CFO generation of more than ₹ 300 crore till YTD FY20

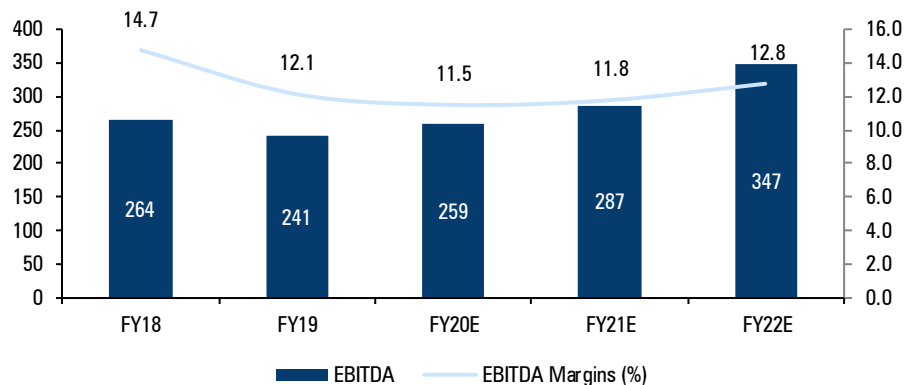
## Financial story in charts

Exhibit 2: Slowdown in India standalone business to impact topline



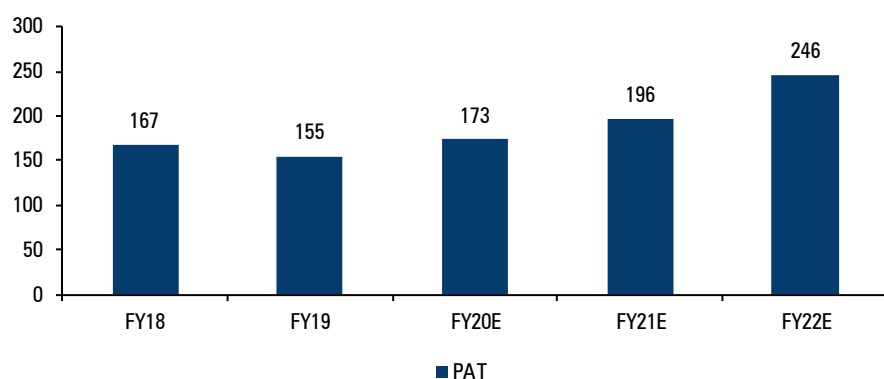
Source: Company, ICICI Direct Research

Exhibit 3: OPM expected to remain at 12-14%, going ahead



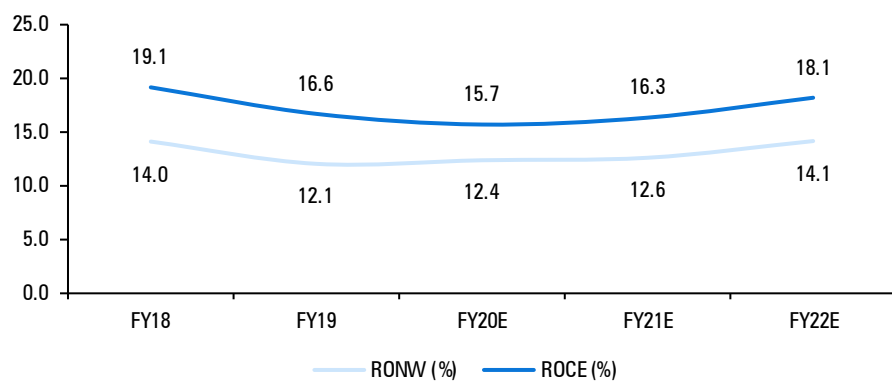
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend



Source: Company, ICICI Direct Research

**Exhibit 5: RoNW & RoCE trend (%)**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement					
	₹ crore				
(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E
<b>Total Operating Income</b>	<b>1794.6</b>	<b>1984.0</b>	<b>2251.8</b>	<b>2432.0</b>	<b>2723.8</b>
Growth (%)	6.9	10.5	13.5	8.0	12.0
Raw Material Expenses	1,022.9	1,171.5	1,390.0	1,498.1	1,675.1
Employee Expenses	163.9	180.6	200.1	209.4	224.5
Other Operating Expense	343.6	390.8	402.4	437.8	476.7
Total Operating Expenditure	1,530.4	1,743.0	1,992.5	2,145.2	2,376.3
<b>EBITDA</b>	<b>264.3</b>	<b>240.9</b>	<b>259.4</b>	<b>286.7</b>	<b>347.5</b>
Growth (%)	0.3	-8.8	7.6	10.5	21.2
Depreciation	46.1	46.1	61.5	63.4	70.6
Interest	4.3	5.3	6.1	2.0	0.0
Other Income	13.2	30.7	34.3	33.9	40.1
PBT	227.0	220.3	226.1	255.3	316.9
Exceptional Item	0.0	0.0	11.4	0.0	0.0
Total Tax	59.9	65.5	53.8	58.7	71.0
PAT	167.1	154.8	183.7	196.6	245.9
Minority Interest	0.0	-0.5	-1.2	0.0	0.0
Reported Net Profit	167.1	155.2	184.9	196.6	245.9
<b>Normalized Net Profit</b>	<b>167.1</b>	<b>155.2</b>	<b>184.9</b>	<b>196.6</b>	<b>245.9</b>
Growth (%)	-1.7	-7.1	19.1	6.3	25.1
<b>Adjusted Net Profit</b>	<b>167.1</b>	<b>155.2</b>	<b>173.4</b>	<b>196.6</b>	<b>245.9</b>
Adjusted EPS (₹)	8.6	8.0	8.9	10.1	12.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					
	₹ crore				
(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E
<b>Normalized PAT</b>	<b>167.1</b>	<b>155.2</b>	<b>184.9</b>	<b>196.6</b>	<b>245.9</b>
Add: Depreciation	46.1	46.1	61.5	63.4	70.6
(Inc)/dec in Current Assets	-372.8	-161.1	-10.1	-146.0	-137.9
Inc/(dec) in CL and Provision:	217.8	46.1	129.2	117.5	67.3
Others	4.3	5.3	6.1	2.0	0.0
<b>CF from operating activities</b>	<b>62.5</b>	<b>91.6</b>	<b>371.6</b>	<b>233.4</b>	<b>246.0</b>
(Inc)/dec in Investments	121.8	-1.0	-193.2	0.0	0.0
(Inc)/dec in Fixed Assets	-66.2	-51.1	-89.6	-100.0	-100.0
Others	16.6	-10.7	-23.1	-0.9	-0.1
<b>CF from investing activities</b>	<b>72.2</b>	<b>-62.8</b>	<b>-305.8</b>	<b>-100.9</b>	<b>-100.1</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-19.0	48.7	-6.8	-42.4	-19.6
Dividend paid & dividend tax	-58.4	-58.4	-58.4	-58.4	-58.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	0.0
Others	-33.7	-6.8	2.3	-2.0	0.0
<b>CF from financing activities</b>	<b>-111.0</b>	<b>-16.4</b>	<b>-62.8</b>	<b>-102.7</b>	<b>-78.0</b>
Net Cash flow	23.6	12.4	2.9	29.8	67.9
Opening Cash	9.8	33.4	45.8	48.7	78.5
Closing Cash	33.4	45.8	48.7	78.5	146.4

\*calculated, Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					
	₹ crore				
(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E
<b>Liabilities</b>					
Equity Capital	19.5	19.5	19.5	19.5	19.5
Reserve and Surplus	1,171.1	1,266.5	1,401.4	1,539.6	1,727.2
Total Shareholders funds	1,190.6	1,285.9	1,420.8	1,559.1	1,746.7
Total Debt	20.0	68.8	62.0	19.6	0.0
Deferred Tax Liability	40.5	16.4	28.5	28.5	28.5
Minority Interest / Others	7.2	8.2	7.1	6.2	6.1
Total Liabilities	1,258.3	1,379.4	1,518.5	1,613.4	1,781.3
<b>Assets</b>					
Gross Block	740.7	788.4	853.0	958.7	1,058.7
Less: Acc Depreciation	362.9	409.0	470.5	533.9	604.5
Net Block	377.8	379.5	382.5	424.8	454.2
Capital WIP	47.3	50.7	75.7	70.0	70.0
Total Fixed Assets	425.1	430.2	458.2	494.8	524.2
Liquid Investments	104.5	105.5	298.7	298.7	298.7
Other Investments	4.4	3.8	3.8	3.8	3.8
Goodwill on Consolidation	195.8	195.8	195.8	195.8	195.8
Inventory	572.2	673.6	699.2	732.9	820.9
Debtors	399.7	449.1	450.6	566.3	597.0
Loans and Advances	165.0	173.3	157.5	158.1	177.0
Other Current Assets	5.6	7.8	6.5	2.4	2.7
Cash	33.4	45.8	48.7	78.5	146.4
Total Current Assets	1,175.9	1,349.4	1,362.5	1,538.3	1,744.0
Creditors	620.7	641.6	726.7	832.9	895.5
Provisions	119.6	144.8	189.0	200.3	204.9
Current Liabilities & Prov	740.3	786.4	915.7	1,033.1	1,100.4
Net Current Assets	435.6	563.0	446.8	505.2	643.6
Others Assets	92.9	81.1	115.2	115.2	115.2
Application of Funds	1,258.3	1,379.4	1,518.4	1,613.4	1,781.3

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					
(Year-end March)	FY18	FY19	FY20P	FY21E	FY22E
<b>Per share data (₹)</b>					
EPS	8.6	8.0	8.9	10.1	12.6
Cash EPS	11.0	10.4	12.7	13.4	16.3
BV	61.2	66.1	73.1	80.2	89.8
DPS	2.5	2.5	2.5	3.0	3.0
Cash Per Share (Incl Invst)	1.7	2.4	2.5	4.0	7.5
<b>Operating Ratios (%)</b>					
EBITDA Margin	14.7	12.1	11.5	11.8	12.8
PBT / Total Op. income	12.6	11.1	10.0	10.5	11.6
PAT Margin	9.3	7.8	8.2	8.1	9.0
Inventory days	116.4	123.9	113.3	110.0	110.0
Debtor days	81.3	82.6	73.0	85.0	80.0
Creditor days	126.2	118.0	117.8	125.0	120.0
<b>Return Ratios (%)</b>					
RoE	14.0	12.1	12.4	12.6	14.1
RoCE	19.1	16.6	15.7	16.3	18.1
RoIC	27.7	21.6	25.1	25.9	28.7
<b>Valuation Ratios (x)</b>					
P/E	26.1	28.1	24.8	22.2	17.7
EV / EBITDA	16.0	17.7	15.7	13.9	11.3
EV / Net Sales	2.4	2.2	1.8	1.6	1.4
Market Cap / Sales	2.4	2.2	1.9	1.8	1.6
Price to Book Value	3.7	3.4	3.1	2.8	2.5
<b>Solvency Ratios</b>					
Debt/EBITDA	0.1	0.3	0.2	0.1	0.0
Debt / Equity	0.0	0.1	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.4	1.4	1.5
Quick Ratio	0.8	0.8	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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