

- Rallis' 2QFY21 earnings print was below our estimates by 7.1% on sales and 21.2% on EBITDA. Sales/EBITDA/PAT stood at Rs 7.25bn/1.17bn/830mn down by 3.2/1.6/3.3% YoY.
- We had anticipated fall in sales of international business, however the reported fall was even steeper (down 29% YoY to Rs 1.54bn) than our expectations. Domestic business did report a decent growth by 8% YoY to Rs 4.86bn, with seeds business growing at 29% YoY to Rs 730mn.
- EBITDA margins stood at 16.1% up by 30 bps YoY owing to stability in raw material pricing coming from domestic business. Gross margins improved by 210 bps YoY to 38.1%.

Outlook and Valuation

Rallis has earmarked capex of Rs 5.25bn (out of the total envisaged Rs 8.0bn) which will be spread across the formulation plant (commission by 4QFY21), Multi-purpose plant (commission by 3QFY22), de-bottlenecking in Ankleshwar (commission by 4QFY21) and a RnD center in Bangalore. The remainder Rs 1.75bn capex implementation is on the drawing board. We believe that the International business (28.7% of sales in 1HFY21) will continue to be under pressure partially off-setting any growth from domestic business. Also, the capex' planned would start contributing only after FY22 and beyond which do not provide visibility beyond the numbers we have baked in. We believe the company would continue to provide similar return ratios (FY20 ROE/RoCE:13.1/12.2% and FY23E ROE/RoCE: 13.7/12.9%) thus limiting chance of any further re-rating. We remain sellers on Rallis and roll forward FY23 estimates, value Rallis at 18x FY23E EPS with a target price of Rs 216/share.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	7,250	7,487	(3.2)	6,627	9.4
Total Expense	6,082	6,300	(3.5)	5,344	13.8
EBITDA	1,168	1,187	(1.6)	1,283	(9.0)
Depreciation	203	186	9.0	179	13.3
EBIT	965	1,000	(3.6)	1,104	(12.6)
Other Income	131	68	92.8	118	11.1
Interest	14	19	(25.5)	20	(28.9)
EBT	1,098	1,049	4.6	1,202	(8.7)
Tax	268	201	33.6	283	(5.2)
RPAT	830	858	(3.3)	919	(9.7)
APAT	813	858	(5.2)	919	(11.5)
			(bps)		(bps)
Gross Margin (%)	38.1	36.0	209	39.7	(162)
EBITDA Margin (%)	16.1	15.8	26	19.4	(325)
NPM (%)	11.4	11.5	(1)	13.9	(242)
Tax Rate (%)	24.4	19.1	530	23.5	88
EBIT Margin (%)	13.3	13.4	(6)	16.7	(335)

CMP	Rs 262
Target / Downside	Rs 216 / 18%
NIFTY	11,930

Scrip Details

Equity / FV	Rs 194mn / Rs 1
Market Cap	Rs 51bn
	USD 693mn
52-week High/Low	Rs 340/ 125
Avg. Volume (no)	861,093
Bloom Code	RALI IN

Price Performance	1M	3M	12M
Absolute (%)	(6)	(12)	61
Rel to NIFTY (%)	(17)	(18)	57

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	50.1	50.1	50.1
MF/Banks/FIs	18.9	19.4	17.1
FIIIs	4.9	4.3	6.6
Public / Others	26.2	26.1	26.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	28.1	24.8	21.9
EV/EBITDA	17.5	15.5	13.3
ROE (%)	12.4	13.0	13.7
RoACE (%)	11.7	12.3	13.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	23,250	25,486	28,131
EBITDA	2,739	3,113	3,601
PAT	1,813	2,054	2,334
EPS (Rs.)	9.3	10.6	12.0

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International business: The de-growth came in largely due to fall in both Metribuzin prices and volumes. Metribuzin prices have been coming off in the global landscape due to the higher channel inventory which might pose a challenge in terms of growth for FY21E. Rallis' new Metribuzin capacity addition seems to be adding to global supply situation thereby leaving little room for improvement in pricing in the near-term. As per the management, volume growth in Pendimethlin and Acephate have shown a reasonable volume growth of 46% and 17% YoY. Despite that key monitorable will be revival in Metribuzin volumes which is expected to be in doldrums for FY21E. Also, the CRAMS business of Rallis which is dependent on PeKK (a molecule used in aerospace industry) has no hope of growth in the near-term, with the airline industry unlikely to pick up amidst COVID-19.

Domestic business: Domestic business grew by 8% YoY to Rs 4.86bn while seeds business grew by 29% YoY to Rs 730mn. The domestic performance could have been better had it not been for excess rainfall in August-20 and September-20. The company launched a new 9(3) molecule via digital medium. The segment saw a 10% volume growth but was partially off-set by weaker pricing. The seeds business saw a strong uptick in sales of Maize and Mustard, however the cotton showed a subdued performance (expect cotton seed volumes to be flattish for the year for the industry). The company is also focussing on the horticulture side of seeds for which a separate team has been established, the pick-up in sales has been gradual.

Concall Highlights

Crop Care Division

- Crop care segment performance was benign during the quarter as excessive rainfall resulted in lower pest infestation on Paddy and cotton crops (low fall army worm infestations in Gujarat and Maharashtra) thus leading to lower agrochemicals usage.
- International business was down by 29% YoY due to continued pressure on price and volumes of the company's key product Metribuzin owing to excess inventory in the system.
- Growth in volumes and improved realizations in other export products of the company like Acephate (17% growth in volumes) and Pendimethalin (43% growth in volumes) helped the company to partially offset the negative impact of Metribuzin.
- Contract manufacturing business continues to be severely impacted by the pandemic and the management mentioned that the PEKK dispatches will remain nil until the airline operations normalize.

Seeds Division

- Seeds division reported a healthy growth of 29% YoY to Rs 730 mn driven by volume growth in its Maize portfolio which recorded an exceptionally performance in the state of Tamil Nadu.

Business Updates

- With sowing area increasing by 5% YoY, normal rainfall and higher water and reservoir levels the management is positive of an improved performance during the upcoming Rabi season for its crop protection business.
- Domestic formulation business revenue grew by 8% YoY to Rs 4.36bn with volume contributing 10% while there was a price correction of 2%. The Dahej formulation plant is expected to be delayed by 2-3 months due to the Covid-19 disruptions and is expected to come on stream at the start of Q4FY21.

- Revenues from exports stood at Rs 1.44 bn in Q2FY21 against Rs 2.17 bn a drop of Rs 630 mn out of which 80% is attributable to Metribuzin which has seen a fall in prices as well as volumes.
- The company has successfully launched one new 9 (3) Grape fungicide during Q2FY21.
- The management said that the pandemic has resulted in reduced demand for its new products launched during last year FY20.
- The management expects Metribuzin capacities to reach peak utilization levels by Q1FY22.
- The management mentioned that the new PLI scheme which was implemented for API is also under consideration to be implemented for the Agrochemicals sector.
- Other expenses were flattish YoY at Rs 1.05bn as savings due to Covid pandemic were offset by increased spend on e-commerce and marketing activities.
- The management is positive of a recovery in Metribuzin sales which is currently under pressure and said that Metribuzin will cater to different needs and will not be an alternative to Dicamba and Glyphosate.
- The company has received registration for a Metribuzin formulation in the Brazilian market.

Expansion Plans

- Phase 2 expansion of the Metribuzin capacity has been successfully commissioned and is operational. The inventory levels in Metribuzin have started to show an improvement with increase in enquiries coming from customer.
- Revamping activities at the Ankleshwar plant are expected to be completed by the end of FY21.
- The company expects the new MPP plant at Dahej to be commissioned by the end of Q3FY22 which will help the company to grow its international business portfolio by commercializing products from its new R&D facility and the company already has plans on commercialization of 2 products in Q3 and Q4 of FY22.
- Phase 1 of the formulation plant in Dahej which consist of multiple lines is expected to get online by the end of March 2021 which will be catering to new formulations as well as additional requirement of the existing formulations.
- Out of the total Capex plan of Rs ~8.46 bn over the next 5 years the company has already finalized plans of ~Rs 5.25 capex out of which large chunk would be towards its New formulation plant, New MPP plant and a new R&D facility. Also the capex is earmarked towards the revamping of its Ankleshwar facility, automation of its plants and machineries, new material handling equipment and new land purchases.

Working Capital

- Working capital days improved in Q2FY21 from 105 days to 65 days on the back of new revised trade terms, increased liquidity in the Rural economy and improvement in collections.
- The company has been keeping maintaining a high stock of inventory due to the uncertainty around the Covid pandemic.
- Receivable days improved to 75 days from 101 days.

Capex

Total Capex to be accounted this year will be in the range of ~Rs1.6-17 bn and the company will incur major Capex from Q2FY21 resulting in a cumulative Capex outflow of Rs 3.5bn over the next years.

Exhibit 1: Actual vs DART Estimates (Rs mn)

Particulars	Actual	Estimated	Variance (%)	Comment
Revenue	7,250	7,800	(7.1)	Lower than anticipated de-growth in international business
EBITDA	1,168	1,482	(21.2)	
EBITDA Margin(%)	16.1	19.0	-290	
PAT	830	1,013	(18.1)	

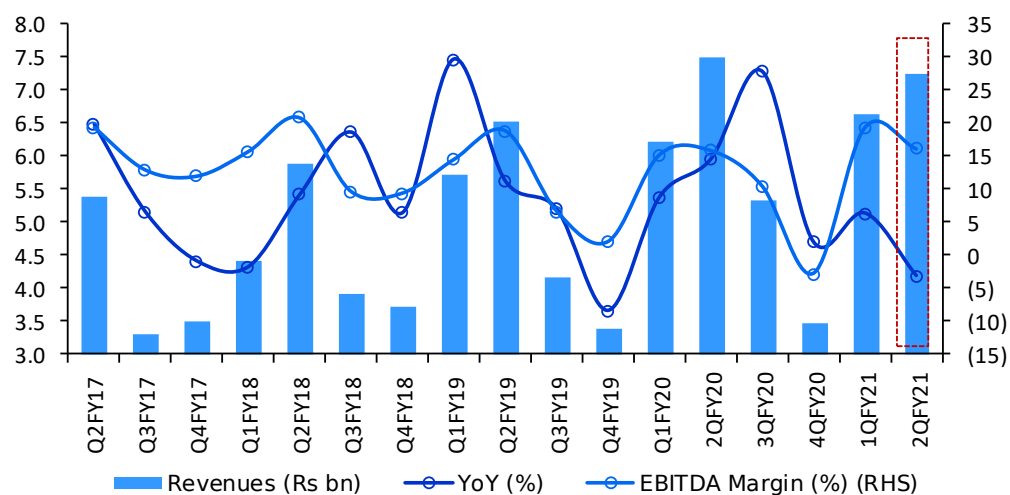
Source: DART, Company

Exhibit 2: Change in Estimates

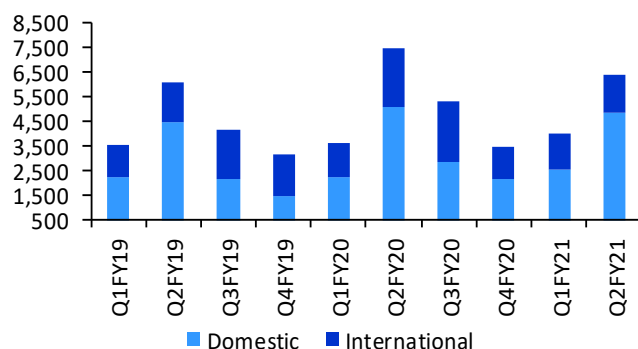
Particulars (Rs mn)	FY22E			FY23E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	25,486	26,671	(4.44)	28,131	-	-
EBITDA	3,113	3,302	(5.72)	3,601	-	-
EBITDA Margin(%)	12.2	12	1.67	12.8	-	-
PAT	2,054	2,243	(8.43)	2,334	-	-
EPS(Rs)	10.6	11.5	(7.83)	12.0	-	-

Source: DART, Company

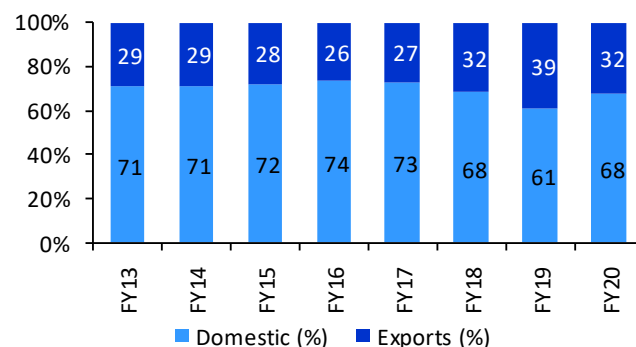
Exhibit 3: Consolidated Revenues vs EBITDA Margin



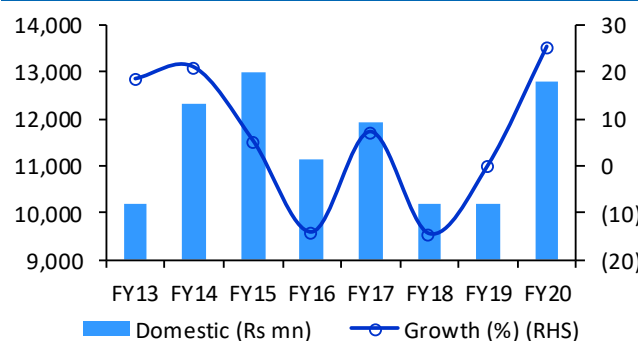
Source: Company, DART

Exhibit 4: Domestic vs International Business (Rs Mn)


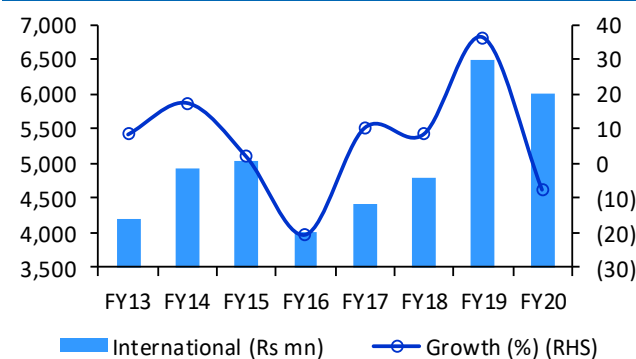
Source: Company, DART

Exhibit 5: Domestic vs Exports Trend


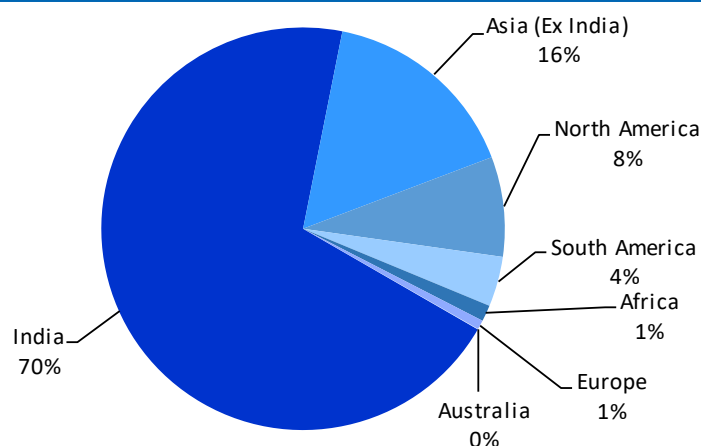
Source: Company, DART

Exhibit 6: Domestic Business Trend


Source: Company, DART

Exhibit 7: International Business Trend


Source: Company, DART

Exhibit 8: Geography Wise Breakup (FY20)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	22,518	23,250	25,486	28,131
Total Expense	19,925	20,511	22,373	24,529
COGS	13,900	14,092	15,231	16,574
Employees Cost	2,001	2,141	2,323	2,521
Other expenses	4,024	4,278	4,819	5,435
EBIDTA	2,594	2,739	3,113	3,601
Depreciation	615	666	764	878
EBIT	1,979	2,072	2,349	2,723
Interest	61	65	70	70
Other Income	458	400	450	450
Exc. / E.O. items	(88)	0	0	0
EBT	2,287	2,407	2,729	3,103
Tax	538	606	687	781
RPAT	1,760	1,813	2,054	2,334
Minority Interest	(12)	(12)	(12)	(12)
Profit/Loss share of associates	0	0	0	0
APAT	1,760	1,813	2,054	2,334

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	195	194	194	194
Minority Interest	7	7	7	7
Reserves & Surplus	13,900	14,990	16,201	17,574
Net Worth	14,095	15,184	16,396	17,769
Total Debt	1,086	1,086	1,086	1,086
Net Deferred Tax Liability	285	285	285	285
Total Capital Employed	15,472	16,562	17,773	19,146

Applications of Funds

Net Block	7,751	8,372	9,465	9,874
CWIP	288	288	288	288
Investments	304	304	304	304
Current Assets, Loans & Advances	16,142	16,818	17,570	19,282
Inventories	6,992	7,028	7,564	8,195
Receivables	4,506	4,334	4,751	5,244
Cash and Bank Balances	487	1,152	835	1,285
Loans and Advances	65	65	65	65
Other Current Assets	1,106	1,252	1,368	1,506
Less: Current Liabilities & Provisions	9,013	9,220	9,853	10,601
Payables	6,373	6,581	7,213	7,962
Other Current Liabilities	2,639	2,639	2,639	2,639
<i>sub total</i>				
Net Current Assets	7,130	7,598	7,717	8,681
Total Assets	15,472	16,562	17,773	19,146

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.3	39.4	40.2	41.1
EBIDTA Margin	11.5	11.8	12.2	12.8
EBIT Margin	8.8	8.9	9.2	9.7
Tax rate	23.5	25.2	25.2	25.2
Net Profit Margin	7.8	7.8	8.1	8.3
(B) As Percentage of Net Sales (%)				
COGS	61.7	60.6	59.8	58.9
Employee	8.9	9.2	9.1	9.0
Other	17.9	18.4	18.9	19.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	32.4	31.9	33.6	38.9
Inventory days	113	110	108	106
Debtors days	73	68	68	68
Average Cost of Debt	5.9	6.0	6.4	6.4
Payable days	103	103	103	103
Working Capital days	116	119	111	113
FA T/O	2.9	2.8	2.7	2.8
(D) Measures of Investment				
AEPS (Rs)	9.1	9.3	10.6	12.0
CEPS (Rs)	12.2	12.7	14.5	16.5
DPS (Rs)	2.5	2.5	3.0	3.5
Dividend Payout (%)	27.6	26.8	28.4	29.2
BVPS (Rs)	72.5	78.1	84.3	91.4
RoANW (%)	13.1	12.4	13.0	13.7
RoACE (%)	12.8	11.7	12.3	13.0
RoAIC (%)	13.8	13.6	14.5	15.7
(E) Valuation Ratios				
CMP (Rs)	262	262	262	262
P/E	29.0	28.1	24.8	21.9
Mcap (Rs Mn)	51,010	51,010	51,010	51,010
MCap/ Sales	2.3	2.2	2.0	1.8
EV	48,622	47,956	48,274	47,823
EV/Sales	2.2	2.1	1.9	1.7
EV/EBITDA	18.7	17.5	15.5	13.3
P/BV	3.6	3.4	3.1	2.9
Dividend Yield (%)	1.0	1.0	1.1	1.3
(F) Growth Rate (%)				
Revenue	13.5	3.2	9.6	10.4
EBITDA	7.6	5.6	13.7	15.7
EBIT	1.5	4.7	13.3	15.9
PBT	3.9	5.3	13.4	13.7
APAT	13.4	3.0	13.3	13.6
EPS	13.4	3.0	13.3	13.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	978	3,545	3,230	2,440
CFI	(567)	(775)	(1,788)	(1,857)
CF	(152)	(598)	(777)	(900)
FCFF	412	2,770	1,443	583
Opening Cash	1,346	1,605	3,777	4,443
Closing Cash	1,605	3,777	4,443	4,125

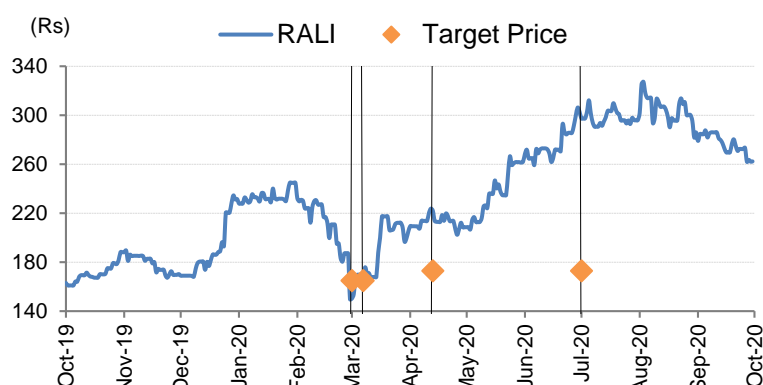
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Reduce	165	150
Mar-20	Sell	165	164
May-20	Sell	173	222
Jul-20	Sell	173	297

*Price as on recommendation date

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