

## New capex likely to aid performance...

Rallis reported revenue growth of 6.9% YoY to ₹ 570.5 crore against our estimates of ₹ 579.8 crore. The growth was largely led by seed and domestic formulation business, which was up by 37% YoY & 17% YoY to ₹ 41 crore & ₹ 318 crore respectively. On the other side, international business revenue remained subdued primarily on account of poor realisations from metribuzin and lower offtake of PEKK under CRAMS, however strong volume growth of other key molecules arrested decline to a certain extent. Adjusting ₹ 6 crore impact towards standard stocks in the seed business, adjusted OPM for the quarter remained at 11.6%(+107bps YoY) against our estimates of 10.5%, leading to EBITDA growth of 18% YoY to ₹ 66 crore against our estimates of ₹ 60.9 crore. Adjusting the exceptional item to the tune of ₹ 6.1 crore related to profit on sale of flats, PAT was up by 19.4% YoY to ₹ 45.6 crore against our estimates of ₹ 37.7 crore.

## Upcoming capex likely to aid revenue ahead

Out of the earmarked capex of ₹ 800 crore over the next 5/6 years, the company has been initially incurring crop formulation capex to the tune of ₹ 110 crore and MPP plant at Dahej with total cost of ₹ 130 crore. Both of these plants are expected to get commissioned by H2FY22. Since it has historically managed asset turn of 2.25-2.5x, we expect the same should likely to sustain in the coming time and thus bodes well for future growth outlook. Apart from this, it has also been doing backward integration, which should likely to lift gross margins further in the years to come.

## International business growth likely to improve ahead

The company had debottlenecked Acephate, Pendimethalin, Hexaconazole capacities recently, which we believe would likely to support volume growth for the international B2B business. Further, recent price increase for key molecules along with visibility of price sustainability/improvement in the metribuzin should likely to aid overall realisations further and thereby the business performance in the coming quarters. Apart from this, revival in the aviation should lift PEKK volumes to pre-covid level in the coming quarters.

## Valuation & Outlook

We believe since outlined organic expansion are already underway with clear focus on maintaining/improving IRR profile of the business, it is evident that group operational performance should likely to improve in medium to long run. Further, control on the working capital and better allocation of incremental cash would aid return ratios further and thereby can command better valuations. We introduce FY23E estimates and roll over our valuations on FY23E. We value the company at 22x PER of FY23E. We arrive at a target price of ₹ 350. We have a **BUY** recommendation on the stock.



### Particulars

Particular	Amount
Market cap (₹ Crore)	5,548
FY20 Total Debt (₹ Crore)	94
FY20 Cash & Inv (₹ Crore)	347
EV (₹ Crore)	5,294
52 Week H/L	340/127
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

### Key Highlights

- Upcoming capex likely to aid revenue ahead
- International business growth likely to improve ahead
- Maintain our rating to BUY on stock with target price of ₹ 350

### Key Risks

- Oversupply situation of any molecule in the industry post commercialisation of upcoming capex can drag realisation and impact the group performance
- Slowdown in the domestic crop protection market can impact topline growth since India constitutes ~65% to the overall revenue

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### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Revenue	1,790.9	1,984.0	2,251.8	2,335.8	2,625.7	3,118.8	11.5
EBITDA	264.5	240.9	259.4	309.4	368.7	460.1	21.1
EBITDA Margins (%)	14.8%	12.1%	11.5%	13.2%	14.0%	14.8%	
Adj. PAT	167.6	155.4	176.0	205.8	246.3	309.9	20.7
Adj. EPS (₹)	8.6	8.0	9.0	10.6	12.7	15.9	
EV/EBITDA	20.6x	22.7x	20.4x	16.7x	13.9x	10.9x	
P/E	33.1x	35.7x	31.5x	26.2x	22.5x	17.9x	
ROE (%)	14.1	12.1	12.5	13.2	14.1	15.5	
ROCE (%)	18.2	16.5	15.5	17.2	18.1	19.8	

**Exhibit 1: Change in estimates**

₹ Crore	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,319	2,336	0.7	2,505	2,626	4.8	3,119	Introduced FY23E. New capacity at Dahej would aid topline growth from FY23E onwards.
EBITDA	302	309	2.5	343	369	7.4	460	
EBITDA Margin (%)	13.0	13.2	24	13.7	14.0	33	14.8	
PAT	202	206	2.0	249	246	-1.1	310	
EPS (₹)	10.4	10.6	1.8	12.8	12.7	-1.1	15.9	

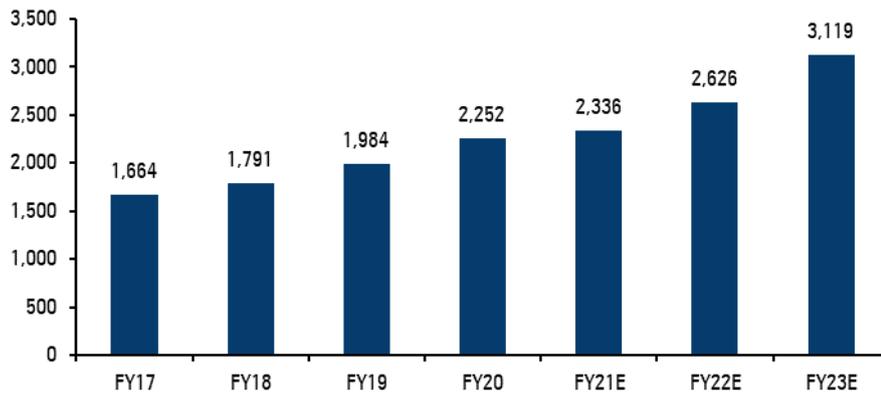
Source: Company, ICICI Direct Research

**Conference Call Highlights**

- International business was down due to Metribuzin price erosion. The prices of Metribuzin remained at ₹ 1300/Kg against ₹ 2100/Kg last year. However, better volume growth for other molecules arrested decline to a certain extent. The international B2B business revenue was down by 1% YoY to ₹ 182 crore despite metri prices were down by more than 35% YoY.
- Revenue from the CRAMS business fell by 38% YoY to ₹ 30 crore, largely impacted by lower offtake of PEKK due to subdued growth in the aviation sector.
- Revenue from Seed business jumped by 37% YoY to ₹ 41 crore, largely driven by better growth from Maize and Bajra
- Focus will be on maintaining growth momentum by launching new product and a change in product mix
- The company launched new 9(4) formulation in Q3 - Trot (Thiamethoxam FS) targeted as a seed treatment insecticide for Cotton, Soybean, Chilli, Sorghum, Wheat, Okra, Maize, Sunflower and Groundnut
- It has successfully launched Aquafert – Grapes (FNP) in Crop Nutrition category
- Entered into biopesticide segment with launch of 2 new products: Ralli-Neem and Ralli-Neem
- The Phase 1 of new formulation unit at Dahej is expected to get commissioned this fiscal
- Capacity Expansion of Metribuzin, Hexaconazole and, Kresoxim Methyl completed during the quarter.
- Capacity expansion for Acetamiprid, & Lambda Cyhalothrin now expected to be completed by April 21
- 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
- The board has approved further investment of ₹ 65 crore for expansion of MPP, pilot plant.
- MPP at Dahej is expected to get commercialised by August'21.

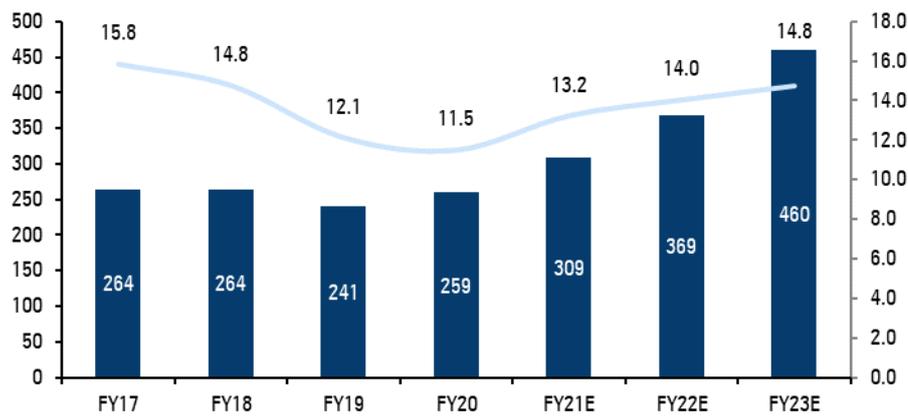
## Financial story in charts

Exhibit 2: Revenue trend (₹ Crore)



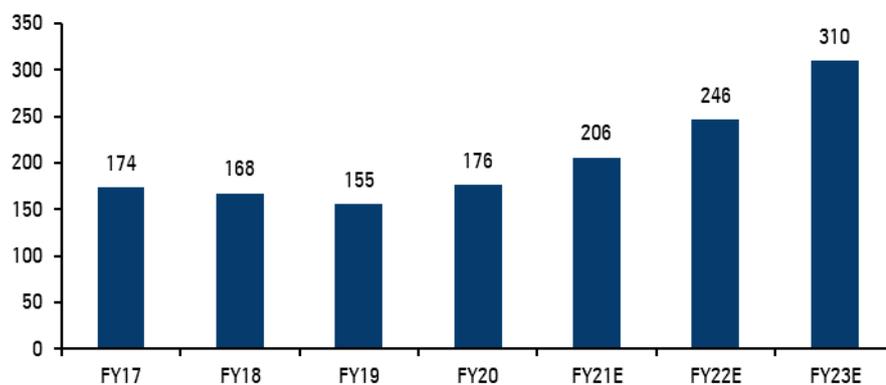
Source: Company, ICICI Direct Research

Exhibit 3: OPM likely to improve due to better gross margins, operating leverage



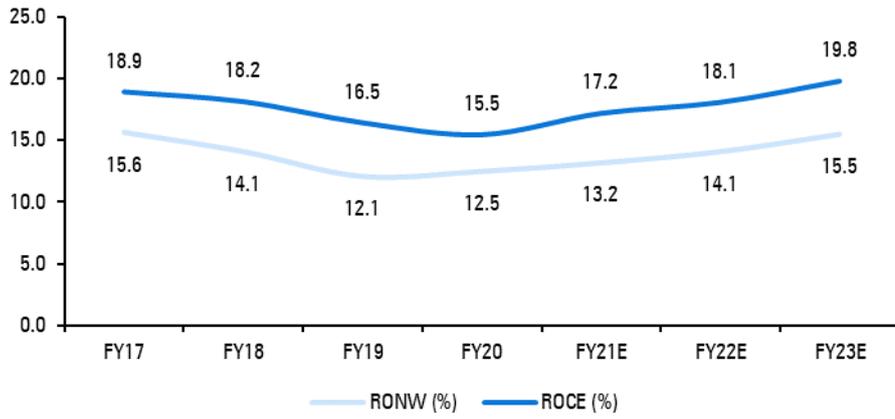
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend (₹ Crore)



Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

**Exhibit 6: Price Chart**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement					
	₹ crore				
Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>1,984.0</b>	<b>2,251.8</b>	<b>2,335.8</b>	<b>2,625.7</b>	<b>3,118.8</b>
Growth (%)	10.8	13.5	3.7	12.4	18.8
Raw Material Expenses	1,171.5	1,390.0	1,401.5	1,562.3	1,840.1
<b>Gross Profit</b>	<b>812.4</b>	<b>861.8</b>	<b>934.3</b>	<b>1,063.4</b>	<b>1,278.7</b>
Employee Cost	180.6	200.1	210.2	236.3	280.7
Other Operating Expenses	390.9	402.4	414.7	458.4	538.0
<b>EBITDA</b>	<b>240.9</b>	<b>259.4</b>	<b>309.4</b>	<b>368.7</b>	<b>460.1</b>
Growth (%)	-8.9	7.6	19.3	19.2	24.8
Other Income	30.7	34.3	37.3	41.6	48.3
<b>EBITDA, including OI</b>	<b>271.6</b>	<b>293.7</b>	<b>346.8</b>	<b>410.4</b>	<b>508.4</b>
Depreciation	46.1	61.5	67.3	81.9	97.9
Net Interest Exp.	5.3	6.1	5.0	0.0	0.0
Other exceptional items	0.0	11.4	7.8	0.0	0.0
<b>PBT</b>	<b>220.3</b>	<b>237.5</b>	<b>282.2</b>	<b>328.5</b>	<b>410.4</b>
Total Tax	65.5	53.8	70.6	82.1	100.6
Tax Rate	29.7%	22.7%	25.0%	25.0%	24.5%
<b>PAT</b>	<b>154.8</b>	<b>183.7</b>	<b>211.7</b>	<b>246.3</b>	<b>309.9</b>
Adj. PAT after Minority interest	155.4	176.0	205.8	246.3	309.9
Adj. EPS (₹)	8.0	9.0	10.6	12.7	15.9
Shares Outstanding	19.5	19.5	19.5	19.5	19.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					
	₹ crore				
Year end March	FY19	FY20	FY21E	FY22E	FY23E
PBT & Extraordinary	220.3	237.5	282.2	328.5	410.4
Depreciation	46.1	61.5	67.3	81.9	97.9
After other adjustments					
(Inc) / Dec in Working Capital	-123.2	96.8	49.2	-35.5	-93.1
Taxes	-70.9	-56.4	-70.6	-82.1	-100.6
Others	7.8	-2.6	5.0	0.0	0.0
<b>CF from operating activities</b>	<b>80.1</b>	<b>336.9</b>	<b>333.1</b>	<b>292.7</b>	<b>314.7</b>
Purchase of Fixed Assets	-46.5	-78.6	-141.2	-180.0	-150.0
Others	-4.9	-167.3	0.0	-50.0	-50.0
<b>CF from investing activities</b>	<b>-51.5</b>	<b>-245.9</b>	<b>-141.2</b>	<b>-230.0</b>	<b>-200.0</b>
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	12.5	4.5	-90.3	0.0	0.0
Others	-64.0	-78.9	-64.0	-58.4	-58.4
<b>CF from financing activities</b>	<b>-51.5</b>	<b>-74.4</b>	<b>-154.3</b>	<b>-58.4</b>	<b>-58.4</b>
Net cash flow	-22.9	16.5	37.6	4.4	56.4
Effects of foreign currency translation	31.2	0.0	0.0	0.0	0.0
Opening Cash	33.4	45.8	48.7	86.2	90.6
<b>Closing Cash</b>	<b>45.8</b>	<b>48.7</b>	<b>86.2</b>	<b>90.6</b>	<b>147.0</b>

\*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					
	₹ crore				
Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Share Capital	19.5	19.5	19.5	19.5	19.5
Reserves	1,266.5	1,390.0	1,543.3	1,731.3	1,982.8
<b>Total Shareholders Funds</b>	<b>1,285.9</b>	<b>1,409.5</b>	<b>1,562.8</b>	<b>1,750.8</b>	<b>2,002.3</b>
Minority Interest	1.8	0.7	0.0	0.0	0.0
Long Term Borrowings	15.8	26.8	0.0	0.0	0.0
Net Deferred Tax liability	38.2	28.5	28.5	28.5	28.5
Other long term liabilities	6.5	6.6	7.8	8.8	10.5
Long term provisions	21.9	25.7	23.6	26.6	31.6
<b>Current Liabilities and Provisions</b>					
Short term borrowings	53.0	63.5	0.0	0.0	0.0
Trade Payables	534.8	637.3	780.7	863.3	1,025.4
Other Current Liabilities	210.2	233.0	241.7	271.7	322.7
Short Term Provisions	16.3	17.1	17.7	19.9	23.6
Total Current Liabilities	814.2	950.9	1,040.1	1,154.8	1,371.7
<b>Total Liabilities</b>	<b>2,184.3</b>	<b>2,448.5</b>	<b>2,662.8</b>	<b>2,969.4</b>	<b>3,444.4</b>
<b>Assets</b>					
Net Block	385.0	397.0	449.7	547.8	599.8
Capital Work in Progress	12.9	28.8	50.0	50.0	50.0
Intangible assets under devl.	37.8	47.0	47.0	47.0	47.0
Goodwill on Consolidation	195.8	195.8	195.8	195.8	195.8
Non-current investments	3.8	3.8	3.8	3.8	3.8
Deferred tax assets	21.7	0.0	0.0	0.0	0.0
Long term loans and advances	7.2	9.8	9.7	10.9	13.0
Other Non Current Assets	107.0	152.1	152.6	171.5	203.7
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	105.5	298.7	298.7	348.7	398.7
Inventories	673.6	699.2	716.7	791.3	939.9
Sundry Debtors	449.1	450.6	531.2	575.5	683.6
Cash and Bank	45.8	48.7	86.2	90.6	147.0
Loans and Advances	0.9	0.0	0.0	0.0	0.0
Other Current assets	138.4	117.1	121.5	136.6	162.2
Current Assets	1,413.2	1,614.2	1,754.3	1,942.7	2,331.4
<b>Total Assets</b>	<b>2,184.3</b>	<b>2,448.5</b>	<b>2,662.8</b>	<b>2,969.4</b>	<b>3,444.4</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
Year end March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>					
Adj. EPS	8.0	9.0	10.9	12.7	15.9
Adj. Cash EPS	10.4	12.2	14.3	16.9	21.0
BV	66.1	72.5	80.3	90.0	102.9
DPS	2.5	2.5	3.0	3.0	3.0
<b>Operating Ratios (%)</b>					
Gross Margin (%)	40.9	38.3	40.0	40.5	41.0
EBITDA Margin (%)	12.1	11.5	13.2	14.0	14.8
PAT Margin (%)	7.8	7.8	8.8	9.4	9.9
Debtor Days	83	73	83	80	80
Inventory Days	124	113	112	110	110
Creditor Days	98	103	122	120	120
Cash Conversion Cycle	108	83	73	70	70
<b>Return Ratios (%)</b>					
Return on Assets (%)	7.1	7.2	7.7	8.3	9.0
RoCE (%)	16.5	15.5	17.2	18.1	19.8
Core RoIC (%)	16.2	17.2	20.6	21.9	24.9
RoE (%)	12.1	12.5	13.2	14.1	15.5
<b>Solvency Ratios</b>					
Total Debt / Equity	0.1	0.1	0.0	0.0	0.0
Interest Coverage	43.0	38.0	56.3	-	-
Current Ratio	1.7	1.7	1.7	1.7	1.7
Quick Ratio	0.9	1.0	1.0	1.0	1.0
<b>Valuation Ratios (x)</b>					
EV/EBITDA	22.7	20.4	16.7	13.9	10.9
P/E	35.7	31.5	26.2	22.5	17.9
P/B	4.3	3.9	3.6	3.2	2.8
EV/Sales	2.8	2.3	2.2	1.9	1.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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