

Ongoing capex portends well for future performance

About the stock: Rallis India is a leading agrochemical company with a presence across the agri input value chain and a strong and healthy pipeline of sustainable products.

- The company has a diversified portfolio, supported by a strong channel network of more than 6,700 dealers and 79,000 retailers
- In terms of revenue contribution, domestic crop care constitutes 54% of the overall revenue followed by international crop care of 30% and rest from seeds business

Q1FY22 Results: Revenue was ahead of our estimates while PAT came in lower than expected owing to lower gross margins and higher operating cost.

- Reported revenue growth of 11.7% YoY to ₹ 740.5 crore, led by domestic crop care business (up 32% YoY)
- Gross margins declined 90 bps YoY to ~38.8% while EBITDA margin contracted 300 bps YoY to 16.4%, due to higher operating cost such as employee & other expenses
- EBITDA was down 5.3% YoY to ₹ 121.5 crore
- PAT fell 10% YoY to ₹ 82.3 crore owing to lower than expected operational performance

What should investors do? The stock appreciated at 95% CAGR in last two years

- We retain **BUY** rating on the back of better growth outlook from both domestic and international crop care business

Target Price and Valuation: We value Rallis India at 25x P/E FY23E EPS to arrive at a revised target price of ₹ 400 per share (earlier ₹ 350 per share)

Key triggers for future price performance:

- Lower pricing pressure for key molecules in the international market along with better volume growth visibility
- Backward integration of few technicals can likely translate into improvement in gross margins
- Increase in custom synthesis/CRAMS business revenue

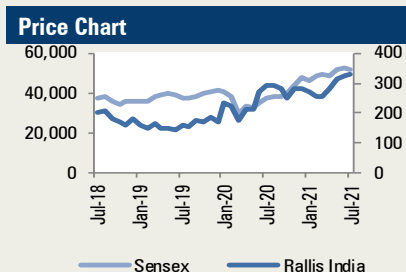
Alternate Stock Idea: Apart from Rallis India, in our chemical coverage we also like Neogen Chemical

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1085



Particulars	
Particular	Amount
Market cap (₹ Crore)	6,342
FY21 Total Debt (₹ Crore)	76
FY21 Cash & Inv (₹ Crore)	335
EV (₹ Crore)	6,082
52 Week H/L	363/232
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

Shareholding pattern				
in %	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	50.1	50.1	50.1	50.1
DII	17.1	16.0	15.9	17.3
FII	6.6	8.2	7.6	7.1
Others	26.3	25.7	26.4	25.5



Recent Event & Key risks

- Witnessing price reversal trend for key molecules in the international market
- Key Risk:** (i) Slowdown in domestic crop care, (ii) Oversupply situation of some molecules in international market

Research Analyst

Mitesh Shah
mitesh.shah@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Revenue	1,984.0	2,251.8	2,429.4	9.7%	2,842.8	3,382.6	18.0%
EBITDA	240.9	259.4	322.9	7.1%	363.8	463.5	19.8%
EBITDA Margins (%)	12.1%	11.5%	13.3%		12.8%	13.7%	
Adj. PAT	155.4	176.0	221.5	8.5%	247.1	310.5	18.4%
Adj. EPS (₹)	8.0	9.0	11.4		12.7	16.0	
EV/EBITDA	26.0x	23.5x	18.8x		17.1x	13.3x	
P/E	40.8x	36.0x	28.6x		25.7x	20.4x	
ROE (%)	12.1	12.5	13.9		13.9	15.3	
ROCE (%)	16.6	15.5	18.0		17.7	20.0	

Key takeaways of recent quarter & conference call highlight

Q1FY22 Results: Strong growth from domestic formulation negated subdued seed segmental performance

- **Domestic business:** Revenues were up 17% YoY to ₹ 608 crore, largely led by the crop care business (up 32% YoY to ₹ 339 crore). Conversely, higher sales of HT cotton seed impacted seed business performance, which was up mere 3% YoY to ₹ 269 crore
- **International business:** There was a recovery in the demand environment for key molecules such as metribuzin in the international market, which assisted international business growth for the quarter. Adjusting the spill over sales of ₹ 45 crore in Q1FY21, international crop care business registered growth of ~32% YoY to ₹ 131.9 crore
- **Operational performance:** Owing to rise in input cost for crop care, the segmental OPM fell 310 bps YoY to 8.1% while the seed business OPM remained at 30.9% (down 50 bps YoY)

Q1FY22 Earnings Conference Call highlights

New product launches:

- The DF - Launched new 9(3) formulation in Q1 – Pepe (Pendimethalin + Penoxsulam) targeted as a herbicide in rice; 9(4) formulation Preet Plus (Pretilachlor) targeted as a rice herbicide and Kaushal (Propineb) targeted as a fungicide in F&V segment
- PGN- Launched Aquafert Foliar- Apple
- Seeds – Launched Paddy (mediummaturity) and five products in cotton segment
- IBD - Four new registrations in Africa and two in South East Asia

Capex:

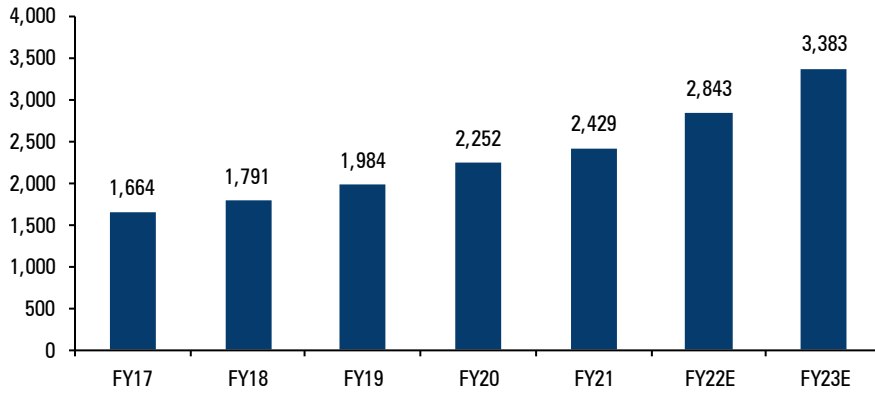
- Overall capex implementation was impacted by second Covid-19 wave; delayed by two to three months
- Ankaleshwar debottlenecking project for two AIs to be complete in Q2FY22
- MPP project progressing well
- Formulation plant at Dahej, CZ - Phase 1 Expected now to be completed by Q2FY22
- Metri getting recommissioned in July 2021

Other updates:

- Not witnessing demand pressure at the farmer end for crop care products in the domestic market
- Growth in the seed business was impacted owing to shift of crop to soybean and higher sales of HT cotton seed
- Group operating margins impacted owing to change in the product mix, higher employee and freight cost
- Quarterly impact to the tune of ₹ 3 crore owing to MEIS

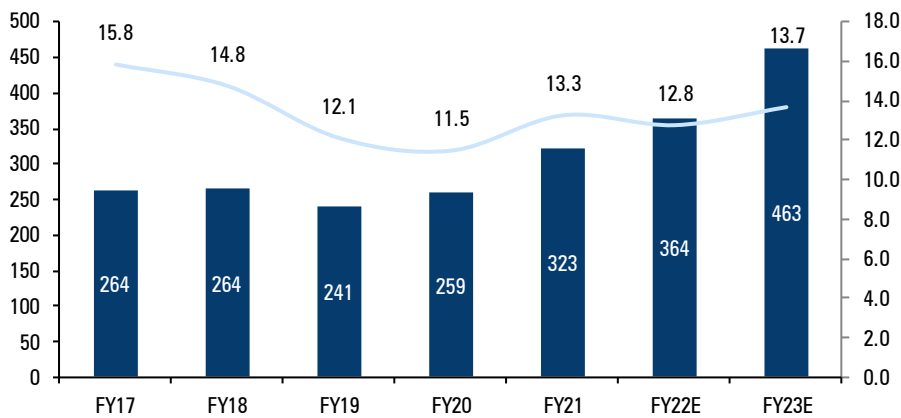
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



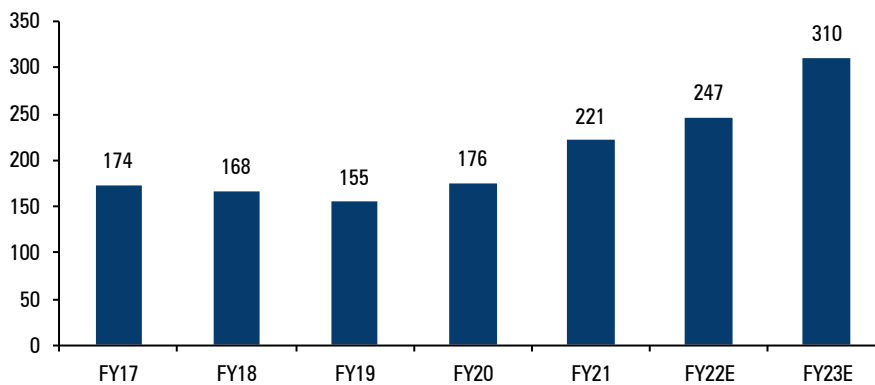
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	1,984.0	2,251.8	2,429.4	2,842.8	3,382.6
Growth (%)	10.8	13.5	7.9	17.0	19.0
Raw Material Expenses	1,171.5	1,390.0	1,475.2	1,719.9	2,012.7
Gross Profit	812.4	861.8	954.2	1,122.9	1,370.0
Employee Cost	180.6	200.1	216.0	255.9	304.4
Other Operating Expenses	390.9	402.4	415.3	503.3	602.1
EBITDA	240.9	259.4	322.9	363.8	463.5
Growth (%)	-8.9	7.6	24.5	12.7	27.4
Other Income	30.7	34.3	40.5	45.9	52.2
EBITDA, including OI	271.6	293.7	363.3	409.6	515.7
Depreciation	46.1	61.5	64.1	75.6	95.5
Net Interest Exp.	5.3	6.1	5.2	4.5	6.2
Other exceptional items	0.0	11.4	9.5	0.0	0.0
PBT	220.3	237.5	303.5	329.5	414.0
Total Tax	65.5	53.8	74.9	82.4	103.5
Tax Rate	29.7%	22.7%	24.7%	25.0%	25.0%
PAT	154.8	183.7	228.6	247.1	310.5
Adj. PAT after Minority interest	155.4	176.0	221.5	247.1	310.5
Adj. EPS (₹)	8.0	9.0	11.4	12.7	16.0
Shares Outstanding	19.5	19.5	19.5	19.5	19.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	220.3	237.5	303.5	329.5	414.0
Depreciation	46.1	61.5	64.1	75.6	95.5
After other adjustments					
(Inc) / Dec in Working Capital	-123.2	96.8	-60.2	-168.6	-167.9
Taxes	-70.9	-56.4	-74.6	-82.4	-103.5
Others	7.8	-2.6	-16.0	4.5	6.2
CF from operating activities	80.1	336.9	216.8	158.6	244.3
Purchase of Fixed Assets	-46.5	-78.6	-168.5	-250.0	-100.0
Others	-4.9	-167.3	6.9	150.0	0.0
CF from investing activities	-51.5	-245.9	-161.6	-100.0	-100.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	12.5	4.5	0.4	40.0	-42.5
Others	-64.0	-78.9	-67.8	-63.5	-64.6
CF from financing activities	-51.5	-74.4	-67.4	-23.5	-107.1
Net cash flow	-22.9	16.5	-12.2	35.1	37.2
Effects of foreign currency translation	31.2	0.0	0.0	0.0	0.0
Opening Cash	33.4	45.8	48.7	55.1	90.2
Closing Cash	45.8	48.7	55.1	90.2	127.4

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Share Capital	19.5	19.5	19.5	19.5	19.5
Reserves	1,266.5	1,390.0	1,571.4	1,760.1	2,012.3
Total Shareholders Funds	1,285.9	1,409.5	1,590.8	1,779.6	2,031.7
Minority Interest	1.8	0.7	0.7	0.0	0.0
Long Term Borrowings	15.8	26.8	29.3	49.3	49.3
Net Deferred Tax liability	38.2	52.1	30.5	30.5	30.5
Other long term liabilities	6.5	0.1	0.1	9.5	11.3
Long term provisions	21.9	25.7	26.9	28.8	34.2
Current Liabilities and Provisions					
Short term borrowings	53.0	63.5	42.5	62.5	20.0
Trade Payables	534.8	637.3	596.1	778.8	926.8
Other Current Liabilities	210.2	215.8	257.5	301.3	358.6
Short Term Provisions	16.3	17.1	14.3	16.7	19.9
Total Current Liabilities	814.2	933.7	910.4	1,159.4	1,325.2
Total Liabilities	2,184.3	2,448.5	2,588.6	3,057.1	3,482.3
Assets					
Net Block	385.0	397.0	435.2	625.2	719.7
Capital Work in Progress	12.9	28.8	105.7	90.0	0.0
Intangible assets under devl.	37.8	47.0	58.8	58.8	58.8
Goodwill on Consolidation	195.8	195.8	195.8	195.8	195.8
Non-current investments	3.8	3.8	3.2	3.2	3.2
Deferred tax assets	21.7	110.0	88.0	88.0	88.0
Long term loans and advances	7.2	9.8	10.9	11.8	14.1
Other Non Current Assets	107.0	42.0	35.7	185.7	220.9
Current Assets, Loans & Advances					
Current Investments	105.5	298.7	280.3	130.3	130.3
Inventories	673.6	699.2	763.2	895.7	1,112.1
Sundry Debtors	449.1	450.6	406.3	506.3	602.4
Cash and Bank	45.8	48.7	55.1	90.2	127.4
Loans and Advances	0.9	0.0	0.0	0.0	0.0
Other Current assets	138.4	117.1	150.5	176.1	209.5
Current Assets	1,413.2	1,614.2	1,655.4	1,798.6	2,181.8
Total Assets	2,184.3	2,448.5	2,588.6	3,057.1	3,482.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY19	FY20	FY21	FY22E	FY23E
Per share data (₹)					
Adj. EPS	8.0	9.0	11.4	12.7	16.0
Adj. Cash EPS	10.4	12.2	14.7	16.6	20.9
BV	66.1	72.5	81.8	91.5	104.5
DPS	2.5	2.5	3.0	3.0	3.0
Operating Ratios (%)					
Gross Margin (%)	40.9	38.3	39.3	39.5	40.5
EBITDA Margin (%)	12.1	11.5	13.3	12.8	13.7
PAT Margin (%)	7.8	7.8	9.1	8.7	9.2
Debtor Days	83	73	61	65	65
Inventory Days	124	113	115	115	120
Creditor Days	98	103	90	100	100
Cash Conversion Cycle	108	83	86	80	85
Return Ratios (%)					
Return on Assets (%)	7.1	7.2	8.6	8.1	8.9
RoCE (%)	16.6	15.5	18.0	17.7	20.0
Core RoIC (%)	16.2	17.2	19.5	17.2	20.0
RoE (%)	12.1	12.5	13.9	13.9	15.3
Solvency Ratios					
Total Debt / Equity	0.1	0.1	0.0	0.1	0.0
Interest Coverage	43.0	38.0	57.4	74.7	67.3
Current Ratio	1.7	1.7	1.8	1.6	1.6
Quick Ratio	0.9	1.0	1.0	0.8	0.8
Valuation Ratios (x)					
EV/EBITDA	26.0	23.5	18.8	17.1	13.3
P/E	40.8	36.0	28.6	25.7	20.4
P/B	4.9	4.5	4.0	3.6	3.1
EV/Sales	3.2	2.7	2.5	2.2	1.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Mitesh Shah, (cleared all 3 levels of CFA), Dhavan Shah, MS (Finance), Siddhant Khandekar, Inter CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.