29 December 2021

Rallis India

Rating: **Buy**
Target Price: Rs.350
Share Price: Rs.267

Capacity, product-expansion-driven growth; initiating with a Buy

Considering its capex plans, focus on product launches, gaining export market-share, rising FCFs, expanding return ratios and strong balance sheet, Rallis India's long-term performance leaves us upbeat. We expect its revenue/profit to clock 12%/22% CAGRs over FY22-24.We initiate coverage on it with a Buy, at a target price of Rs350. Key short-term monitorables are the increasing use of illegal cotton seed, rising input costs and softer demand for contract manufacturing.

International business to shore up growth. Rallis' international crop-protection business clocked an 12% CAGR over FY16-21. To support this growth, it is expanding capacities, setting up capacities for critical inputs (backward integration), registering more products and focusing on R&D to develop relevant products for key markets. We expect the growth momentum to continue. We expect international crop care business would register a 15% CAGR over FY22-24.

Its seeds business, a key focus. Its seeds business primarily caters to *kharif* crops and recorded a 10% CAGR over FY16-21. To fill gaps in its see range, reduce dependence on *kharif* crops and enhance operations across segments, the company is developing products to diversify into *rabi* season products. We expect its seeds business revenue to clock a 7% CAGR over FY22-24.

Capex to fuel growth. Over FY14-21, Rallis spent ~Rs6.5bn on capex. It announced Rs8bn capex for the next five years to enhance capacities for formulations, R&D, new active ingredients and backward integration. Of the total capex, it finalised investments of Rs5.25bn. Capex in FY22 would be Rs2.5bn.The remaining capex would be finalised by Q1 FY23

Valuation. The stock trades at 27x TTM EPS and we valued it at 25x FY24 EPS. At this multiple, the TP works out to Rs350 a share. **Risks:** Failure to diversify to a non-*kharif* range of seeds, greater use of illegal herbicide-tolerant cotton seeds, monsoon dependence, delay in launching products and slowdown in R&D.

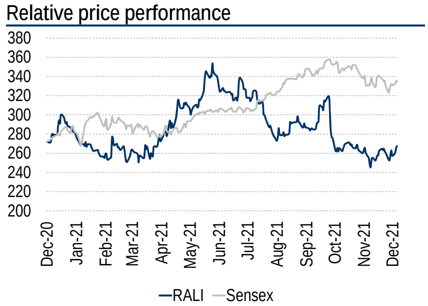
Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rsm)	22,518	24,294	26,791	30,048	33,763
Net profit (Rsm)	1,848	2,286	1,828	2,291	2,721
EPS (Rs)	9.0	11.4	9.4	11.8	14.0
PE (x)	29.5	23.4	28.4	22.7	19.1
EV / EBITDA (x)	19.0	15.3	17.2	13.3	11.0
PBV (x)	3.7	3.3	3.0	2.7	2.5
RoE (%)	13.1	14.8	11.0	12.6	13.6
RoCE (%)	12.3	14.0	10.5	12.0	13.0
Dividend yield (%)	0.9	1.1	0.9	1.1	1.3
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.2)

Source: Company, Anand Rathi Research

Key data	RALI IN / RALL.BO
52-week high / low	Rs363 / 242
Sensex / Nifty	57806 / 17214
3-m average volume	$1.9m
Market cap	Rs52bn / $695.8m
Shares outstanding	194m

Shareholding pattern (%)	Sep`21	Jun`21	Mar`21
Promoters	50.1	50.1	50.1
- of which, Pledged	-	-	-
Free float	49.9	49.9	49.9
- Foreign institutions	6.6	7.1	7.6
- Domestic institutions	16.2	17.3	15.9
- Public	27.2	25.5	26.4

Relative price performance



Source: Bloomberg

Bhawana Israni
Research Analyst

Nav Bhardwaj
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues	22,518	24,294	26,791	30,048	33,763
Growth (%)	*13.5*	*7.9*	*10.3*	*12.2*	*12.4*
Direct costs	13,900	14,752	17,012	18,930	21,102
SG&A	6,025	6,313	6,832	7,362	8,272
EBITDA	2,594	3,229	2,947	3,756	4,389
EBITDA margins (%)	*11.5*	*13.3*	*11.0*	*12.5*	*13.0*
Depreciation	615	641	777	1,005	1,109
Other income	343	405	321	361	405
Interest expenses	61	52	48	48	48
PBT	2,375	3,035	2,444	3,063	3,637
Effective tax rate (%)	*22.7*	*24.7*	*25.2*	*25.2*	*25.2*
+ Associates / (Minorities)	(12)	(0)	-	-	-
Net income	1,848	2,286	1,828	2,291	2,721
Adjusted income	1,760	2,215	1,828	2,291	2,721
WANS	195	194	194	194	194
FDEPS (Rs/ sh)	9.0	11.4	9.4	11.8	14.0
FDEPS growth (%)	*13.3*	*25.8*	*(17.5)*	*25.3*	*18.7*
Gross margins (%)	*38.3*	*39.3*	*36.5*	*37.0*	*37.5*

Fig 2 – Balance Sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	195	194	194	194	194
Net worth	14,095	15,908	17,279	18,998	21,038
Total debt	936	756	956	956	956
Minority interest	7	7	7	7	7
DTL/(Assets)	285	264	264	264	264
Capital employed	15,322	16,935	18,506	20,224	22,265
Net tangible assets	3,872	4,242	5,952	7,805	7,995
Net intangible assets	97	108	108	108	108
Goodwill	1,958	1,958	1,958	1,958	1,958
CWIP (tang. &intang.)	757	1,645	1,658	800	500
Investments (strategic)	38	32	32	32	32
Investments (financial)	2,988	2,804	2,204	2,204	2,204
Current assets (ex cash)	14,288	14,546	17,429	18,641	20,603
Cash	487	551	138	887	2,475
Current liabilities	9,162	8,951	10,974	12,211	13,612
Working capital	5,126	5,594	6,455	6,430	6,992
Capital deployed	15,322	16,935	18,506	20,224	22,265

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT after OI and Interest	2,093	2,683	2,170	2,751	3,280
+ Non-cash items	615	641	777	1,005	1,109
Oper. prof. before WC	2,708	3,323	2,947	3,756	4,389
- Incr./(decr.) in WC	(779)	468	861	(25)	561
Others incl. taxes	691	770	616	772	917
Operating cash-flow	2,796	2,085	1,470	3,009	2,911
- Capex (tang. + intang.)	775	1,910	2,500	2,000	1,000
Free cash-flow	2,021	175	(1,030)	1,009	1,911
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	585	583	457	573	680
+ Equity raised	-	(0)	-	-	-
+ Debt raised	208	(180)	200	-	-
- Fin investments	1,878	(190)	(600)	-	-
- Misc. (CFI + CFF) (OI & Int.)	(264)	(464)	(274)	(313)	(357)
Net cash-flow	29	65	(413)	749	1,589

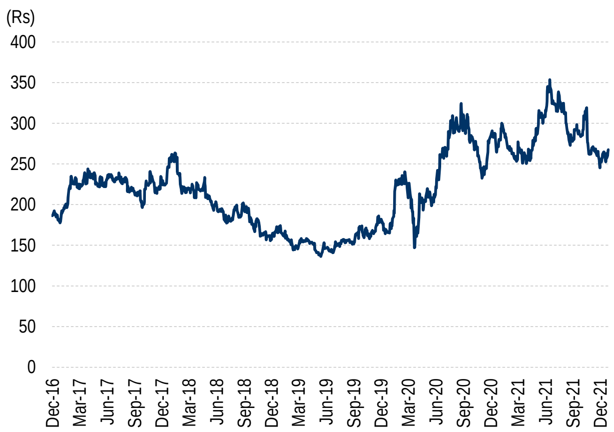
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	29.5	23.4	28.4	22.7	19.1
EV / EBITDA (x)	19.0	15.3	17.2	13.3	11.0
EV / Sales (x)	2.2	2.0	1.9	1.7	1.4
P/B (x)	3.7	3.3	3.0	2.7	2.5
RoE (%)	13.1	14.8	11.0	12.6	13.6
RoCE (%) - after tax	12.3	14.0	10.5	12.0	13.0
RoIC (%)	14.9	17.7	12.5	14.0	15.9
DPS (Rs / sh)	2.5	3.0	2.4	2.9	3.5
Dividend yield (%)	0.9	1.1	0.9	1.1	1.3
Dividend payout (%)	26.3	25.5	25.0	25.0	25.0
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.2)
Receivables (days)	73	61	73	66	66
Inventory (days)	184	189	190	185	181
Payables (days)	167	147	157	157	157
CFO : PAT %	158.9	94.2	80.4	131.3	107.0

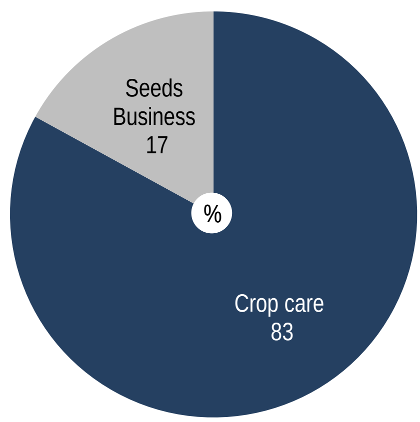
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Business mix, FY21

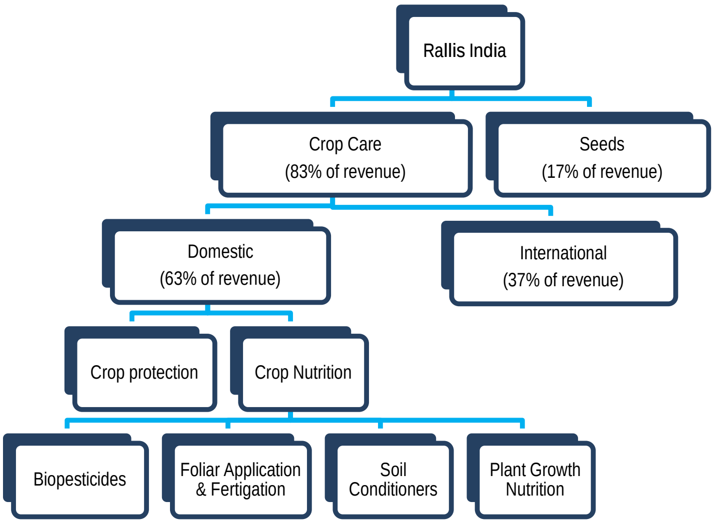


Source: Company

Leading agrochemicals producer

A Tata group company, Rallis India is one of the leading agrochemical companies in India and a preferred partner of global manufacturers(contract manufacturing). It has ~7 decades' experience in servicing rural markets with the most comprehensive range of products and solutions. It has a diversified value chain of seeds, soil conditioners and crop-protection (CP) chemicals to plant-growth nutrients (PGN). It enjoys a 6% market share in CP chemicals and PGN, and 3% in seeds.

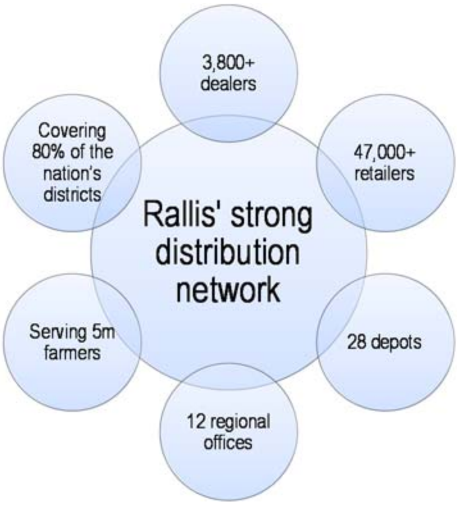
Fig 7– About the businesses



Source: Company

Rallis has vast distribution network in India. Globally, the company has a strong foothold in more than 70 countries. Its key markets are America, Europe, Africa, the Middle East, Asia and Oceania.

Fig 8 – Distribution network in India



Source: Company

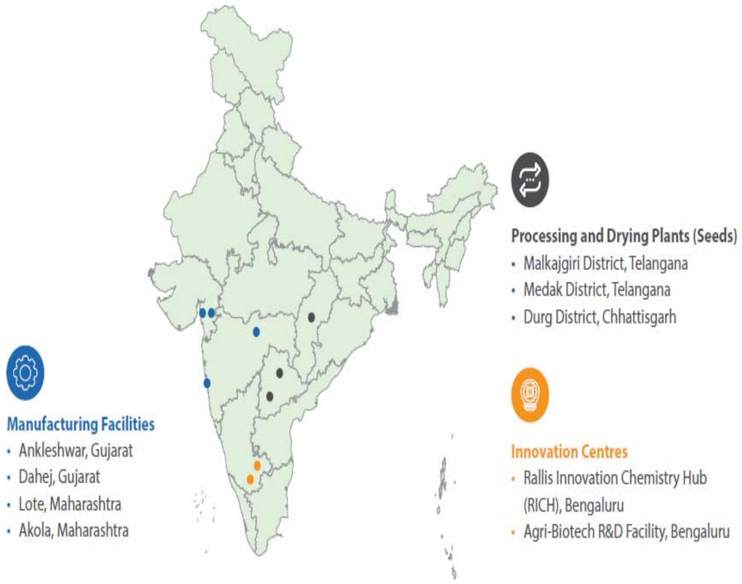
It has four manufacturing plants, two in Gujarat and two in Maharashtra, with capacity to manufacture over 10,000 tpa of technical-grade pesticides and ~30,000 tons/litres p.a. of formulations. Furthermore, it has built adequate seed-processing and packing facilities at its own plants as well as at those of its partnerships; two facilities in Telangana and one in Chhattisgarh.

Fig 9 – About the manufacturing plants

Facility	Area (sq. metres)	Key products	
Akola, Maharashtra	52,000	Formulations	• In the geographical centre of the country for logistical advantage to cater to demand • Separate plants for herbicides, fungicides and insecticides
Lote, Maharashtra	50,0000	Technicals and Formulations	• ~275km from Mumbai on the Goa National Highway • The unit is licensed to manufacture 4,400 tpa of acephate, an organo-phosphorous compound
Ankleshwar, Gujarat	60,000	Technicals and Formulations	• In Gujarat, ~12km from Baruch, 350km from Mumbai. • The unit is dedicated to manufacture technical grade fungicides • Besides a basket of – azole molecules; the location helps in contract manufacturing for two key customers
Dahej, Gujarat	SEZ	Technicals and Formulations	• A multi-purpose technical-grade manufacturing plant for a number of crop-protection products

Source: Company

Fig 10 – Strategically-located manufacturing plants



Source: Company

Domestic crop protection

Its domestic crop-protection business comprises developing, manufacturing and distributing agricultural inputs across India. With years of expertise and sturdy management back-up, Rallis changed from being a pesticide manufacturer to a more diversified one with strong operations in the agricultural value chain. Today, it is one of the leading companies in domestic agrochemicals.

Over the years, it has strengthened its position domestically and enjoys 6% market shares in crop protection and plant-growth nutrients. Its domestic crop-protection business comprises

- **Crop protection:** herbicides, fungicides, insecticides, seed-treatment chemicals(besides household pesticides)
- **Seeds:** paddy, millet, maize, BT cotton, mustard, vegetables
- **Soil conditioners**
- **Plant-growth nutrients**

Crop protection

Rallis' domestic crop-protection business consists of brand-named formulations (for B2C) and an institutional business (B2B) comprising fungicides, insecticides and herbicides. Its comprehensive range of agro inputs and services cover 80% of India's districts through an extensive distribution network.

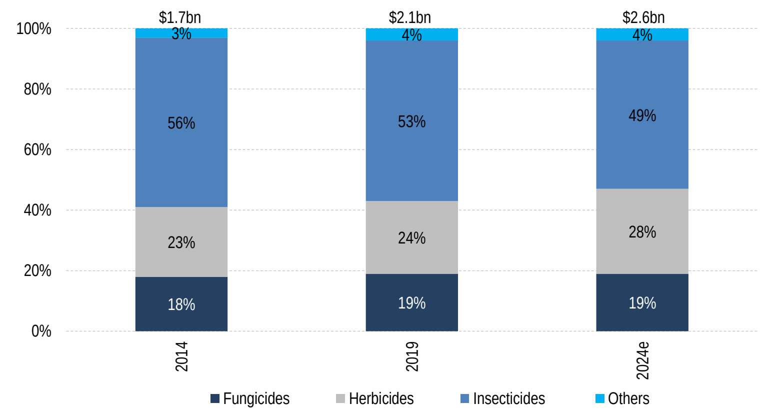
In the institutional business, it sells active ingredients (AI) or bulk formulation products to institutions. Over the years, it has expanded its product range by adding the world's best crop-protection molecules through alliances with Dow AgroSciences, Syngenta and Nihon Nohyaku.

In its domestic brand-named business, it has flagship brands such as Blitox, Contaf, Takumi, Master, Panida and Tata Metri. It has a wider crop-protection range of generic and niche products across crops and crop cycles.

Rising contribution of herbicides

In the domestic crop-protection chemicals market, insecticides enjoy the highest market share (~52%). India has around 10,000 types of plant-eating insects. In the agriculture value chain, agrochemicals are the final external stimulus provided to plants.

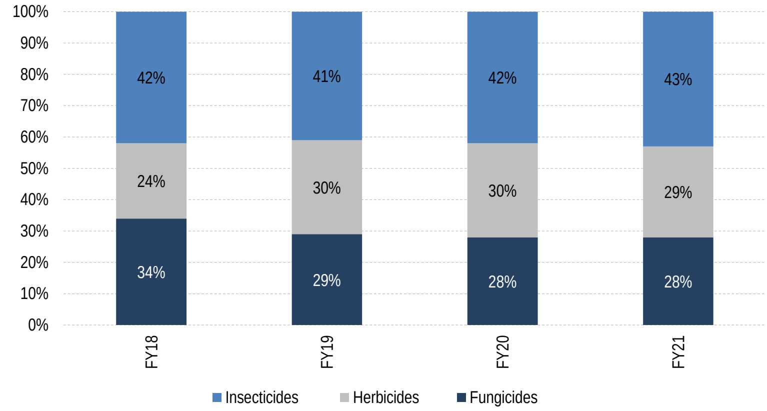
Fig 11 – Indian crop protection chemicals domestic market by product type



Source: India pesticides DRHP, Anand Rathi Research

Similar to the industry trend, Rallis' crop-protection revenue from insecticides is huge (~43%), and clocked a 13% CAGR over FY18-21.

Fig 12 – Rallis' herbicides contribution rose from 24% in FY18 to 29% in FY21

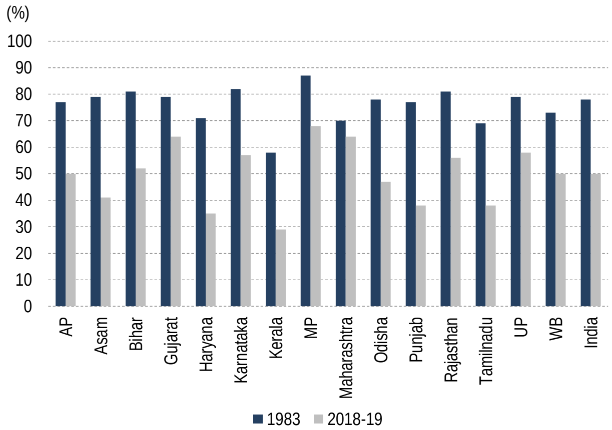


Source: Company

The company reported a strong 19% CAGR over FY18-21 in its herbicides range revenue. The share of revenue from herbicides rose to 29% in FY21 (from 24% in FY18). Rallis' key brands are Tata Panida, Panida Grande (used as pre-emergence), Impeder, TataMetri and Sartaj (wheat herbicide), Taarak and Riceup (paddy herbicide).

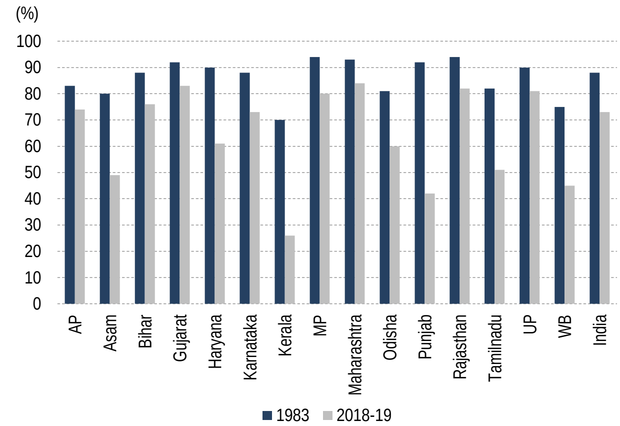
Data regarding the industry show rising urbanisation resulted in a labour shortage in agriculture.(India's urban population is expected to cross 40% by 2030 and 50% by 2050.) This has led higher wages for labour. Extended herbicide use is required to improve soil fertility, against the traditional use of labour to remove weeds and stubble.

Fig 13 – Decline in agriculture employment (male)



Source: Industry data

Fig 14 – Decline in agriculture employment (female)



Source: Industry data

Regular product launches to support future growth

Management says regular product launches are key to its domestic market growth. For the past few years Rallis India has been launching products every year. It has developed a wide range of products through manufacturing active ingredients, and sourcing some active ingredients and formulated products from partnerships.

Fig 15 – Key products launched in the last ten years

Year	Product name	Category	Key crops
2011	Toran	Insecticide	Cotton
	Taarak	Herbicide	Paddy
	Ralligold	PGN	All crops
2012	Sonic, Taffin, Neon	Insecticides	Tea, cotton, sugarcane, paddy, vegetables
	Honcho, Cylo, Vaar, Fycol	Herbicides	Vegetables, paddy, oil seeds, soybean
	Saras, Ditaf	Fungicides	Fruit, vegetables
	Tata Bahaar	PGN	All crops
2013	Tata Uphaar, Gluco Beta	PGN	All crops
2014	Plato	Herbicide	All types of weeds in the soybean crop
2015	Hunk	Insecticide	Rice pest complex
	Origin	Insecticide + Fungicide	Insects and diseases of rice
	Duton	Herbicide	All types of weeds in transplanting and wet direct seeded rice
	Blend	Fungicid	Management of grapes downy mildew and potato late blight diseases
	Amplus	Bio-Fertilizer	To improve soil structure and water-holding capacity and improving fertilizer-use efficiency
2016	Zeeny	Insecticide	Advanced formulation for the control of Jassids on Okra
	Mark Panida Grande	Herbicides	Control of weeds in various crops
2017	Summit, Neonix	Insecticides	Cotton, chilli, brinjal seed treatment against soil-borne insects& disease complex for groundnut
	EPIC	Fungicides	Paddy
2018	Odis, Jashn Super	Insecticides	Rice, cotton Control of key lepidopteron pest
	Rice up	Herbicide	Weeds in both directly seeded rice and transplanted rice
	Pulito, Cenator	Fungicides	Control of a wide spectrum of diseases as well as to increase plant/ fruit health
2019	Oliver	Herbicide	Post-emergence control of grasses, which lead to significant losses in commercial crops.
2020	Zygant	Insecticide	Paddy
	Ayaan, Sarthak	Fungicides	Management of rice sheaths Blight on the paddy crop
2021	Trot	Insecticide	Cotton, soybean, chilli, sorghum, wheat, okra, maize, sunflower and groundnut
	Eevee	Insecticide Fungicide	Control of disease and insects in the paddy and tomato crops
	Kriman	Fungicide	Grape and tomato
	Enzip	Herbicides	Soyabean

Source: Company

Ahead, it is focusing on product launches and expanding its product range to help fill the crop-pest-management gap. Its expertise in science and knowledge of customers would help its aim of launching environmentally-sustainable products.

It is developing innovative and research-based crop-nutrition products, focusing on water-soluble fertilisers (WSF). Besides, to better serve customers and increase yield, it is evaluating alternative formulations to improve existing products. It plans to launch two products every year in the next 3-4 years and expand market share in under-served regions (MP, UP, RJ) and in select crops: soyabean, wheat and paddy (blast).

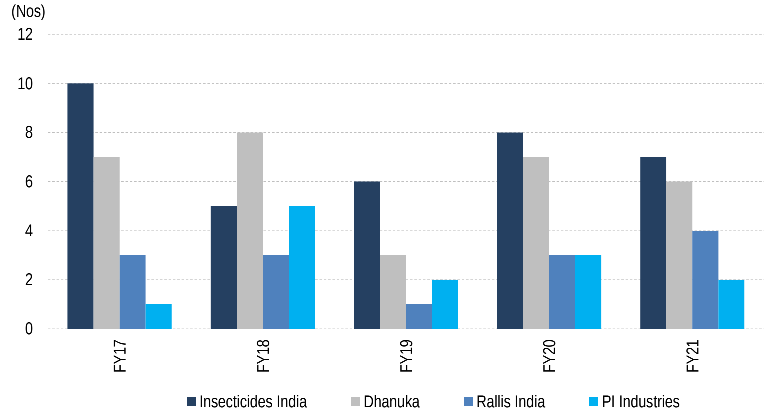
Furthermore, it is working on its distribution channels by adding distributors, revitalising channel policies and improving relations between itself and distributors to expand its domestic business.

Launches, fewer than those of peers

We compared Rallis' product launches with other companies and found that it has fewer launches than its peers. Dhanuka and Insecticides India's launches have averaged respectively six and seven products yearly in the last five years; Rallis averaged three in its crop-protection business. PI Industries launched three products in the last five years in its domestic agri business (similar to Rallis), but its focus is more on CRAMS.

Rallis has increased its focus on product launches in last two years and expected to continue in coming years.

Fig 16 – Product launches vs peers



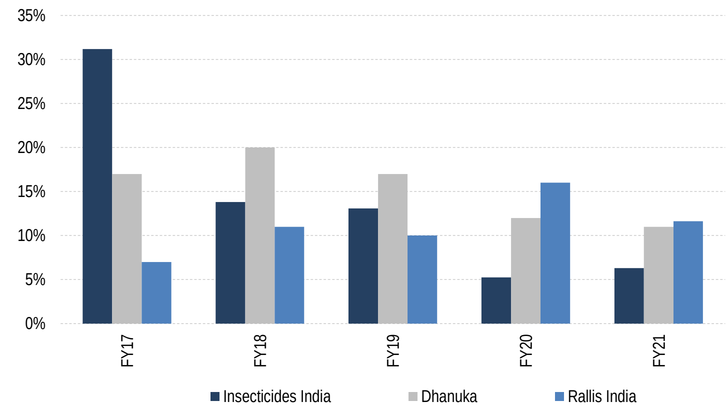
Source: Company

Innovation-turnover index (ITI)

The company uses the innovation-turnover index to check the performance of products launched in the last four years and to calculate the proportion of revenue of the new products in total revenue. Over FY09-11, the index averaged27%,ie,~one-fourth of revenue came from products launched in the last four years. From FY12 to FY16, the index showed a mixed performance, ranging from 7% to 15% owing to the long time required (for approvals) to introduce products as well as farmer preference for generic products due to crop economics.

Rallis' ITI declined to 11% over FY17-21. Dhanuka and Insecticides India had better it is of respectively 15% and 14%.

Fig 17 – Innovation-turnover index of Rallis vs that of its peers



Source: Company

We expect that its product launches, its strong position in its home market and the consolidation of its distribution network and adding policies would drive growth in its domestic business.

Proposed ban on 27 pesticides, key risk for Rallis

The government of India has proposed banning 27 pesticides in India (import, manufacture, sale, transport, distribution and use). It claims that these pesticides are noxious to animals and humans. The list, comprising 12 insecticides, 8 fungicides and 7 herbicides, involves 130 formulations.

These 27 banned pesticides are highly hazardous, with potential to cause severe health problems incl. hormonal changes, carcinogenic issues, neurotoxic, reproductive and development health effects as well as environmental issues such as higher toxicity for bees.

The expected market for these pesticides was Rs120bn. They are expected to be replaced with alternative pesticides, less harmful to humans, animals or the environment. However, as this is unlikely to be enforced on exports from India, companies focused on exports are less likely to be affected.

Industry experts and pesticide manufacturers say the ban will not only shrink export earnings of the Indian industry but also be a massive setback to Indian farmers. The ban would lead to an additional burden on farmers as the 27 pesticides cost Rs350-450/litre (imported alternative: Rs1,200-2,000).

Rallis sells 8 of the 27 pesticides proposed to be banned. Industry estimates put acephate and mancozebas having the largest shares domestically and in exports. The former's market is estimated at Rs21bn ($277m), 50% exports. The latter's domestic market would be Rs15.5bn ($205m), of which Rs11bn come from exports. If the ban is implemented Rallis' earnings would be curtailed.

Fig 18 – Pesticides included in the banned list

Category	Name	Offered by Rallis under brand	Other manufacturers
Insecticides	Acephate	Asataf is a 75% SP formulation of acephate	Rallis, UPL, Insecticides India
	Benfuracarb		Insecticides India
	Carbofuran		UPL
	Chlorpyriphos		UPL, Rallis, Coromandel, Sumitomo, Insecticides India
	Deltamethrin		Bayer Cropscience, UPL
	Dicofol		Dow, Indofill
	Dimethoate	Tafrog is a broad spectrum organo-phosphate systemic, insecticide with systemic, contact & stomach mode action	Rallis
	Malathion		UPL, Coromandel, Insecticides India
	Methimyl		Dupont
	Monocrotophos		UPL, Insecticides India
	Quninalphos		Dhanuka, Sumitomo
	Thiodicarb		Bayer Cropscience
Herbicides	2,4-D		Atul, Dhanuka, UPL
	Atrazine	Atrataf is a 50 WP formulation of atrazine	Rallis
	Butachlor		Insecticides India
	Diuron		Bayer, Atul, Bharat Rasayan, Insecticides India
	Oxyfluorfen		Rallis
	Pendimethalin	Tata Panida is a 30% EC formulation of pendimethalin	Dhanuka, Rallis, PI Industries, UPL
	Sulfosulfuron	Fateh is a 75% WG formulation of sulfosulfuron	Insecticides India, Atul
Fungicides	Captan	Captaf is a 50% WP formulation of captan	Rallis
	Carbendazin		Dhanuka
	Dinocap		Dow
	Mancozeb	Master 72% WP is a unique fungicide formulation containing a mixture of the systemic fungicide, Metalaxyl; the contact fungicide provides outstanding control of diseases caused by Oomycetes, serious plant pathogens	Dhanuka, Coromandel, Bayer, UPL
	Thiophante Methyl	A broad spectrum systemic protective and curative fungicide	Insecticides India, BASF, Rallis
	Thiram		Bayer, UPL, Bharat Rasayan
	Zineb		Dow, FMC
	Ziram		Syngenta

Source: GoI draft document, India Pesticides DRHP, Anand Rathi Research

Over the past three years, Rallis' focus has shifted toward its domestic business growth. The company strengthened its range by introducing products, enhancing its brand image and expanding its distribution reach. Furthermore, to support growth, it introduced liberal trade terms, revised channel credit policies and motivation schemes.

We expect its domestic revenues to clock a 10% CAGR over FY21-24, driven by products introduced, its wide distribution reach and enhanced farmer connect.

Crop nutrition

In FY21 Rallis consolidated under one vertical (crop nutrition)its plant growth nutrition (PGN), foliar application and fertigation and soil conditioners (GeoGreen) ranges. Besides, it introduced a business category, bio-pesticides.

Over the years, it has expanded its product basket and operations, which resulted in a 6% share of the PGN market. Management says plant-growth nutrient is high growth, and it is focusing on introducing products across various crop segments and regions. Its PGN range includes bio-fertilisers, bio-stimulants, micro-nutrients and secondary products.

In FY21 its crop nutrition business grew 22% y/y. GeoGreen, the popular soil-conditioner recorded significant growth, in line with steps taken in the supply-chain and strong performance in plant-growth nutrients, driven by measures in sales and marketing.

The company launched four products in water-soluble fertilisers: Aquafert FNP (potato, onion, vegetables) and Aquafert Fertigation (grape grades), Grosmart in bio-stimulants, and Flowbor in secondary and micro-nutrients. Simultaneously, three new SKUs (100ml Surplus, 10 litre Rallis Bahaar and 25kg GeoGreen) were introduced.

Management says category, segment and product range gaps were identified for product development and more than 20 product segments across categories were chosen for development and commercialisation.

Crop-nutrition research and development have also been geared up to launch products over five years. Furthermore, agreements were entered into with three strategic partners, resulting in strong support of 14 strategic partners in the supply chain. While the Akola unit is manufacturing a few of the products, there are plans to manufacture added products. The company launched and promoted two botanical bio-pesticides, Ralli-Neem and Ralli-Neem+ through strategic partnerships.

Management says it crop-nutrition business is its focussed growth area and is paving the path to sustained growth ahead.

Plant nutrients

Globally, India is the second-largest consumer of fertilisers, a Rs6.3trn market in CY19, expected to register a 12.2% CAGR over CY19-24 to Rs11trn. Key growth drivers would be

- Higher yield required due to rising urbanisation and less arable land
- Low penetration of fertilisers in many Indian states
- Government and non-government awareness campaigns to educate farmers regarding the benefits of fertilisers

- Farmers' enhanced awareness as well as willingness and purchasing capacity to spend on fertilisers

The domestic bio-stimulants market is expected to clock a 16.8% CAGR over 2017-23 (from $71m to $181m).

Bio-stimulants are used to

- Increase crop yield
- Improve efficiency of water usage and enhance crop quality.

Further, the requirement to improve yield per hectare and the rising demand for organic food have attracted significant investments in this sector.

India's micro-nutrients market was valued at Rs19bn in FY19 and is expected to register a ~9% CAGR over the next few years.

Soil conditioners (GeoGreen)

To de-risk its product range from pesticides to non-pesticides, the company acquired a 22.8% stake in Zero Waste Agro Organics Pvt. Ltd. (ZWAOPL) in FY12. Again in FY14, FY15 and FY17, it acquired additional stakes to 51%, 74% and 100% respectively. In Feb'20, the NCLT sanctioned the amalgamation of ZWAOPL with Rallis.

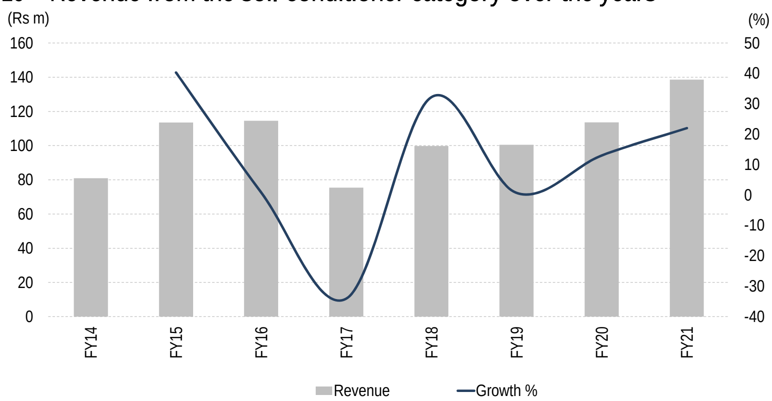
ZWAOPL manufactures scientifically-prepared organic compost, a soil conditioner. The key product "GroGreen" is a scientifically prepared organic compost, derived from waste from the sugar industry. It vastly improves soil structure, is a rich source of 'organic carbon', capable of supporting and enhancing biological activity in the soil, increases water-holding capacity and the uptake of soil nutrients, helps fight diseases and reduce stress factors. The product has been well received by farmers, who can see crop productivity improve through its use.

The company has GeoGreen, GeoGreen Granule and GeoGreen P Plus in organic fertilisers, and planned to augment this range by launching GeoGreen K Plus in *kharif*2020.

In FY20, its soil-conditioner business grew 13%. Management says the growth of its soil conditioner brand, GeoGreen, would be primarily driven by:

- The government's initiatives to boost use of organic fertilisers
- Increasing farmer awareness about the benefits of such products
- Best-in-class products in the industry

Fig 19 – Revenue from the soil-conditioner category over the years



Source: Company

International business, on a growth trajectory

To balance its domestic business' monsoon-dependent risk, the company's international business has a key role. Over the years, to grow its international business the company has invested substantially on registrations, product development, production capacities and relationships. Further, this business helped it achieve greater economies of scale. International crop protection business revenue averages 30% of total revenue and recorded a 18% CAGR over FY18-21 and 12% CAGR over FY16-21.

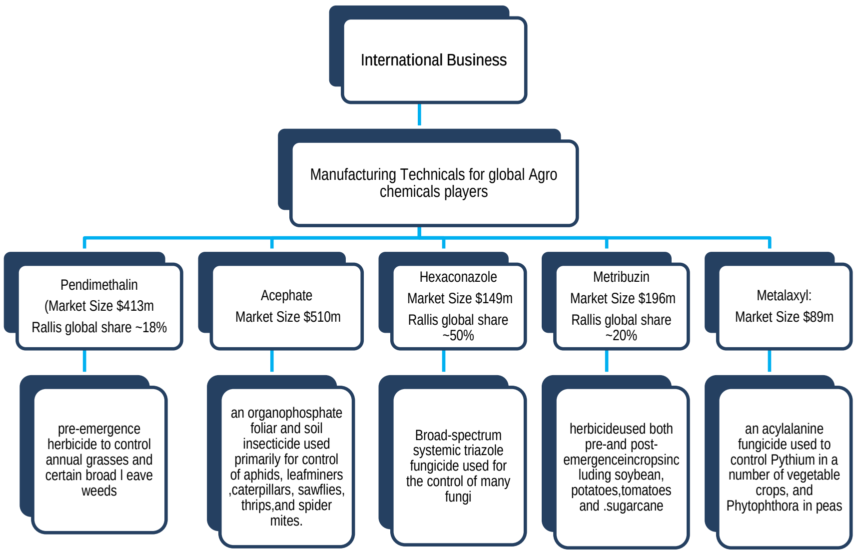
Under its international business, its product basket includes technical grade pesticides, bulk and brand-named formulations and contract-manufactured products. Today, its international business is a key contributor to its overall revenue generation. The products meet stringent regulatory and environmental standards in all major crop-growing areas across the globe.

The company has adopted a two-pronged strategy for its international business

- Building B2B partnerships for AIs being manufactured
- Levering its chemistry knowledge to develop partnerships for contract manufacturing of crop-protection and other adjacent chemistry products.

With exports to more than 70 countries, the company continues to expand its international operations through alliances and direct distribution.

Fig 20 – Key products in international business

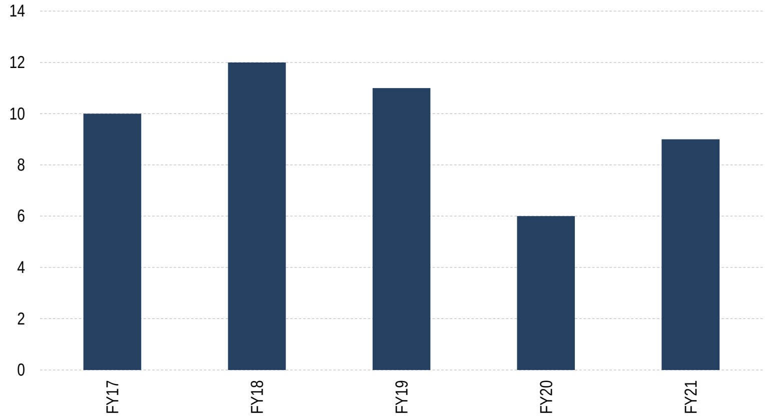


Source: Company

Focus on registrations for better visibility

To increase its base in various regions, the company is focusing on product registrations in different markets. In the last five years, it obtained 48 registrations in international markets. Its key focus markets are Latin America, North America and Asia.

Fig 21 – Registrations in export markets



Source: Company

Industry trends - Sales of crop-protection chemicals are evenly split (50% each for exports and the home market)

India was the world's third-largest exporter (by volume) of pesticides in 2018. China leads exports of pesticides with a 27% market share, followed by Germany (8.3%), India (8%), the United States, Belgium and France.

India's exports of crop-protection chemicals registered a 7% CAGR over 2014-19. Of the crop-protection chemicals produced, 50%(by value) was actually exported in 2019.Exports are projected to grow to ~55% (to $3.1bn)in 2024 at an 8% CAGR over 2019-2024.

India's exports growing better than those of China

The recent Covid-19 outbreak created the need for a 'China+one' strategy to avoid over-investing in one country and to promote diversification to other countries. This was primarily adopted by various multinationals, which are taking steps to avoid over-dependence on China for manufacturing.

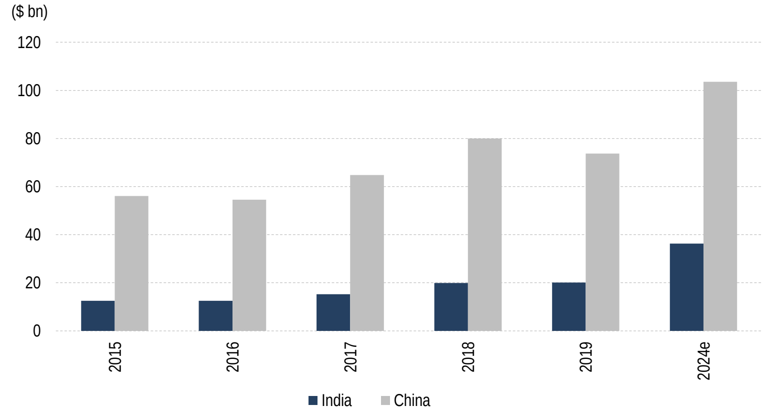
In India, exports are increasing and the country is becoming a central manufacturing hub for such chemicals. Tightening of environmental norms, (e.g., REACH regulations in developed countries) and the slowdown of China are assisting India's export growth.

China's exports are growing slower than those of India due to the latter's low-cost competitiveness. The Chinese government mandated construction of effluent-treatment plants and imposed a green tax on the chemicals industry to combat pollution. As a result, the overall cost of production went up due to capex for effluent treatment and arise in compliance costs.

Such costs are expected to be greater for smaller non-integrated plants operated by medium and small-scale manufacturers. This is likely to impact production in the medium term and, thereby, overall chemicals exports. Thus, China's competitiveness is shrinking due to rising capex and operating expenses post-implementation of stricter environmental-protection norms by the Chinese government.

Over FY15-19, China's chemicals exports recorded a 7% CAGR while India's grew 12.6%. Both are expected to grow at similar rates in the next 5-6 years.

Fig 22 – Chemicals export trends: India vs. China



Source: India Pesticides DRHP, Anand Rathi Research

Rallis' crop-protection export business clocked an 18% CAGR in the last four years. In Q2 and H1FY22, it grew respectively ~22% and 15% y/y supported by strong demand for most products except metribuzin.

On its strategic move, the company expanded production capacities for two active ingredients, metribuzin and pendimethalin. It invested Rs400m to double its metribuzin capacity to 2,000tpa. It has 20% of the global metribuzin market.

In Q2 FY22 it completed re-organizing metribuzin production at a single plant. Management expects the metribuzin plant to be fully leveraged by Q4FY22. It says demand for metribuzin is growing as some weeds have turned resistant to conventional herbicides. The increased capacity will help it gain more market share.

At the Q2FY22 concall, management talked of commercialising at least one new active ingredient from the MPP next year. This and subsequent launches typically take nearly three years to obtain registrations around the world and then ramp up sales.

We expect the growth momentum to continue and the business to clock a 15% revenue CAGR over FY22-24, supported by capacity expansions, setting up capacities for critical inputs (backward integration), acquiring more product registrations and the thrust on R&D to develop relevant products for key markets.

Growth strategies

Rallis is working on

- Increasing and building capacity for current products and new AIs to meet demands of existing and potential customers
- Investing in registration of AIs and formulations to further increase volumes of AIs being manufactured at its own plants
- Increasing its footprint in the high-potential regions of the Americas, Europe, Africa and Asia-Pacific
- Building capacities and capabilities to expand contract-manufacturing opportunities emerging from the global supply-chain scenario

- Developing brand-named sales in select regions with local partnerships.

Diversified operations across the globe

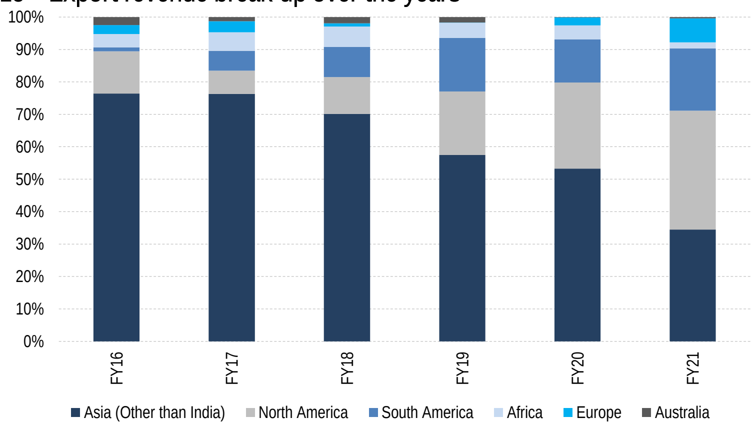
In FY16, its export business generated 25% revenue, which grew to ~30% in FY21. It has strong operations in over 70 countries. The most revenue (~11%) came from North America, followed by Asia and South America.

In FY21, its export revenue grew 5% y/y, driven by strong growth in South America (52% y/y) and North America (45% y/y) mainly Brazil and the USA respectively. Revenue from Europe increased to ~Rs530m in FY21 (from Rs167m in FY20) 7% of export revenue (2% in FY20). Covid-19 lockdown restrictions and the challenging business context pulled revenue down by 32% y/y in Asia (other than India) and 54% y/y in Africa.

The company is focusing on its international brand-named business. In FY20, it started exporting metribuzin(a formulation)to Brazil. In H1 FY22, it registered a formulated acephate product in Brazil. Management says this is an excellent opportunity to expand its formulations business.

It said that North America, South America and Europe account for most of its international business revenue. This is with the exception of hexaconazole exports (used chiefly for rice), and which primarily go to southeast Asia.

Fig 23 – Export revenue break-up over the years



Source: Company

Focus on CRAMS

The company contract-manufactures molecules for global chemicals manufacturers. At present, it contract-manufactures only two products, poly ether ketone ketone and metconazole.

Poly Ether Ketone Ketone. This is a high-performance engineering thermoplastic characterized by an unusual combination of properties: resistance to chemicals, wear and fatigue. PEKK and its composites are widely used in

- Aerospace
- The automotive industry
- High-temperature electrical and bio-medical applications

Rallis' PEKK plant at Ankleshwar was started in 2013. The company entered into an exclusive contract to supply PEKK to M/s Cytec Engineered Material, US. Cytec supplies PEKK-based composites to aircraft manufacturers, and the Ankleshwar facility is designed to cater to meet the mounting demand for PEKK in new-generation aircraft.

Industry data show that global production of PEKK rose from 329m tonnes in 2013 to 511m tonnes in 2017,at a ~12% CAGR. Europe is the largest manufacturing base,~64% of global production in 2017, followed by India. This industry is controlled by few companies like Arkema and Rallis. In China, Kaisheng New Materials is the only manufacturer and the first one to break the technology monopoly.

The Covid-19 outbreak curtailed demand for PEKK. Imports and exports were hurt by stringent lockdowns. Demand from aerospace declined.

At its Q2FY22 concall, management said PEKK demand was hit in the last couple of quarters since it is primarily related to the airline industry and there were greater stocks with customer. The company expects demand to revive from mid-FY23.

The industry expects the global PEKK market to grow to $101.3m in 2026,(from $46m in 2020) at a 11.7% CAGR, supported by rocketing demand now for aircraft, and deliveries struggling to keep up with demand in line with requirements. Orders for these products from airline companies resulted in swelling demand for PEKK.

Further, using 3D printing techniques such as selective laser sintering (SLS), PEKK components with complex geometries and unique shapes can be manufactured rapidly without moulds or dies. With the development of 3D printing technology, demand for PEKK will an increase in the next few years. The EU and North America are the main consumption centres.

Metconazole. This a fungicide, supplied to Japanese company Kureha Chemicals, a leader in specialty chemicals.

Aiming at growth and to strengthen its position in contract manufacturing, Rallis is working on two molecules. Further, it plans to work with global innovators to expand its CRAMS portfolio. It plans to increase capacity and capabilities for existing products due to rising demand for them while focusing on new products to tap opportunities partially vacated by China.

It expects that its available strong technical knowhow in process chemistry, low-cost advantage and long customer relations would help it to a strong performance in coming years.

It believes that shifting of sourcing from China to other centres will benefit the Indian market. The government's policies regarding investments and benefits would help Indian agriculture. Being strong in this market, it expects to benefit from this shift.

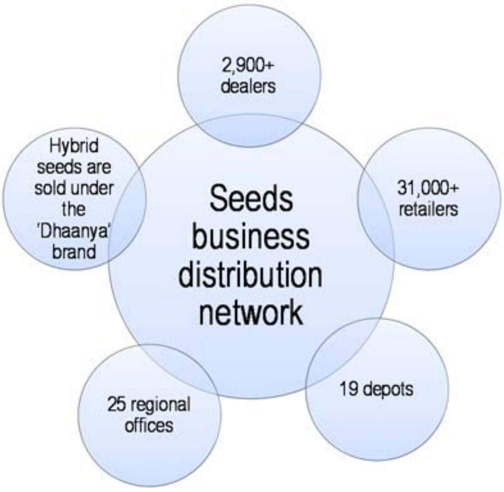
Product launches, diversification, growth drivers for its seeds business

Focusing on expanding its agricultural value chain and considering seed as a major growth area, in FY11 Rallis acquired a ~60% stake in Metahelix Life Sciences, a research-led seeds company. This firmed up its operations in the entire seeds value-chain comprising breeding, producing and marketing seeds.

Metahelix is strong in research, technical knowledge, germplasm, hybrids and seed production, It has expertise in crop genetics and plant bio-technology to develop high-performance hybrid seeds of rice, maize, cotton, millets and vegetables for various segments. 80-85% of its production is for *kharif* crops.

Over the years, the company has raised its stake in Metahelix. From 1stFeb'20, Rallis amalgamated its wholly-owned subsidiary, Metahelix Life Sciences. It expects the synergies of Metahelix' inherent strengths (product range, breadth, its emerging and popular 'Dhaanya' seed brand, established supply chain and demand-generating abilities)and its own crop care and seed businesses to further strengthen their market positions.

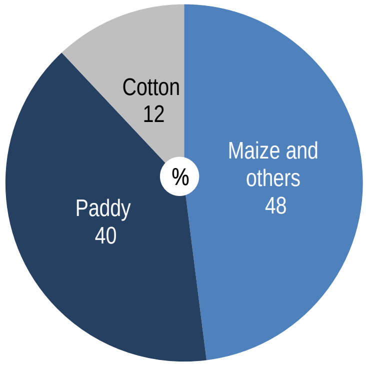
Fig 24 – Highlights of seeds business



Source: Company

Rallis' agri-biotech research is focused on herbicide-tolerant and insect-resistant characteristics in maize and cotton. Further, the agri-biotech research team is engaged in market-assisted breeding in many crops to complement conventional crop-breeding research.

Fig 25 – Business mix of seed business in Q2FY22 – crop wise



Source: Company

The seeds industry

The global seed market now is estimated at ~$40bn. Maize is the major crop followed by soya and vegetables. The three together are estimated to account for ~75% of the global seeds market.

The seeds sector is R&D intensive and on par with pharmaceuticals in R&D expenditure, estimated at 15% of sales revenue. The high-end research is making seeds an important contributor to agricultural productivity. The seeds sector contribution is estimated to equal the combined contribution of crop care and fertilisers.

The adoption of technology is rapidly advancing, with CRISPR,MAB and RNAi being the latest trend. Maize, soy, canola and cotton are the four main GM crops and a considerable proportion of demand for such seeds arises from north and south America.

The domestic seeds industry market size (excl. illegal seeds) is estimated at ~$2.5bn. Cotton supported by BG II traits is the biggest crop, followed by hybrid maize and hybrid paddy. Many vegetable crops account for ~$0.5bn of the domestic seeds market.

Cotton is dominated by domestic manufacturers whereas global majors have significant shares in hybrid crops such as maize, paddy, millet, mustard and vegetables. In India investment in R&D is low. Only a few companies undertake bio-technology-supported research considering regulatory uncertainty and a limited addressable market compared to global majors which operate world-wide.

Significant developments are expected to drive growth of crop care as well as the seeds business in India. These are

- Efforts by industry and the government of India to develop an appropriate ecosystem to tap opportunities emerging from supply-chain diversification of global majors
- Agriculture is becoming more organised and is further supported by recent farm reforms
- Increasing the MSP of cotton seed to address the concerns of cotton seed manufacturers

Seeds business impacted in H1 FY22

In FY18-19, the company's seed business growth was lower; in FY20, it grew 8% to Rs3.6bn, bringing 16% to revenue, driven by strong volume growth of *bajra* (pearl millet), higher realisations in paddy and millets, the continued focus on the cotton business and rising share of new products.

In FY21, the company's seeds business revenue grew 10% y/y to Rs4bn despite a challenging business environment. The company has reduced portfolio gaps in field crops with launches and a widened market-relevant vegetable portfolio through partnerships. It launched four products in the year.

Besides, growth was supported by a better performance due to in-licensing arrangements in vegetables and mustard. To grow its vegetables business, the company restructured it as a separate line of business with a dedicated sales and marketing team.

The innovative-turnover index of seed products was 15.1% in FY21vs. 12.6% a year ago.

The seed business was severely impacted in H1 FY22. Its revenue declined 12% and 66% y/y in H1 and Q2 FY22. The illegal cultivation of herbicide-tolerant (HT) Bt cotton has seen a huge jump this year. Seed manufacturers claimed that the sale of illegal seed packets has more than doubled, from 3m last year to 7.5m this year. Also, there was a shift in acreage on the back of commodity price trends and climatic variations.

The other factors for the revenue decline were reduction in hybrid paddy area in UP and a few other states, surplus rainfall in Bihar leading to reduced paddy acreage coupled with significant reduction in *bajra* area due to a long pause in rainfall in the northern states.

Bt cotton is the only transgenic crop that has been approved by the Centre for commercial cultivation in India. It has been genetically modified to produce an insecticide to combat cotton bollworm, a common pest. The HTBt cotton variant adds another layer of modification, making the plant resistant to the herbicide glyphosate, but does not have regulatory approval. Fears include glyphosate having a carcinogenic effect as well as the unchecked spread of herbicide resistance to nearby plants through pollination, creating a variety of super-weed.

Growth drivers of seed business

Focus on diversification

The company is launching innovative products to fill portfolio gaps and enhance its operations across segments. It is also working on product development to further diversify into *rabi* season products, such as fruit and vegetables. Further, it intends to grow in non-*kharif* crops by drawing upon in-house research capabilities, in-licensing of products, enhancing engagement with existing trade partners and adopting new trade channels.

On the back of its strong R&D, it aims to introduce quality hybrid seeds for a range of crops, and to develop traits and technologies for better crop protection and greater productivity. Further, it is working on other crops that can support and offer higher value from investing in marketing.

At the Q2FY22 concall, management said it was conscious that its seed business needs some strategic action. It believes that some of the growth strategy may not have fired on all cylinders. It identified actions in the short and medium term and is confident that many of these steps will help in building and moving this business to a profitable growth trajectory in future.

Earlier, it guided to increase revenue from cotton hybrids but the increased sale of illegal cotton seeds has hurt its performance. Therefore, it softened its growth expectations. Despite the near-term challenges, it continues to

- Improve its product range by introducing products including medium-duration paddy and cotton hybrids
- Build a *rabi* portfolio
- Deliver volume growth across segments
- Set up a new retailer loyalty program and higher hybridisation, to be supported by products which are tolerant to disease as well as a-biotics
- Focus on R&D
- Focus on in-licensing tie-ups for mustard and vegetable seeds till it is able to commercialise its own hybrids
- Intensify demand generation and lever its brand equity
- Strengthen its non-*kharif* range through its own research and in-licensing
- Intensify engagement with trade partners for greater value
- Adopt emerging new trade channels

On its *rabi* range, management said there would be significant product launches and scaling up in the next two years. The vegetable seeds revenue share is small and Rallis continues to add in-licensing partnerships. For this, it has taken a new approach of "One Rallis" for market engagement.

Further, it has five new hybrids for cotton under approval and is focusing on scaling these up at a reasonable rate. Management says some products have not done well in the last two years. It is re-considering those particular products for growth

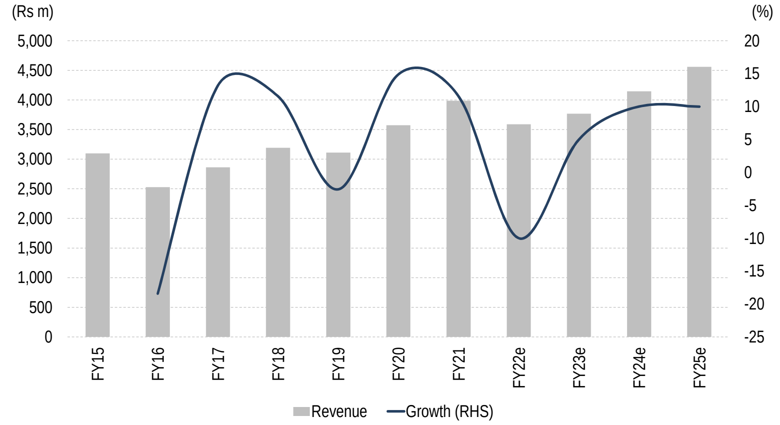
Started 'One Rallis' initiative

Generally, supply chains in the seeds business are longer. To optimise resources and cost in order to serve customers at the right time with the right quality and quantity of seeds, the company is focusing on improving supply-chain efficiencies.

It commenced the 'One Rallis' initiative, under which management looks to combine crop protection and seed teams to unify marketing efforts. It expects productivity to improve ~15-20% from this. This measure has been launched in east India and will be rolled out nationally in due course.

Over FY18-21, the seeds business registered a 8% CAGR to Rs4bn. We expect it to clock a 7% CAGR over FY22-24, supported by more investment in its *rabi* seed range and in developing a vegetable seed range. The company enjoys higher margins in its seeds business than in other business segments.

Fig 26 – Seeds business to clock a 7% CAGR over FY22-24



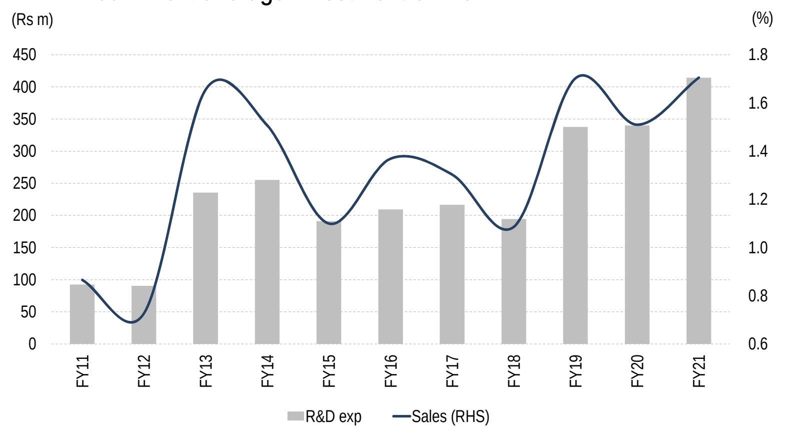
Source: Company, Anand Rathi Research

Focus on innovations

To provide safe, superior and sustainable products and solutions across the agricultural value chain, Rallis invests ~1-1.5% yearly on R&D. Its focus is on creating customer-driven agricultural solutions. This resulted in developing and introducing generic molecules, formulations and pre-mixes.

At present, the company has one R&D centre, Rallis Innovation Chemistry Hub, in Bengaluru, for organic synthesis and formulations development. Besides, it is setting up another R&D centre in Bengaluru to further drive growth by considerably stepping up crop protection & nutrition and seeds research. It expects this to have upgraded infrastructure with added human resources to accommodate many more projects than in earlier years.

Fig 27 – Annual ~1.3% average investment on R&D



Source: Company

Key R&D-related strategies to support domestic / international businesses:

- Process development and improvement in crop-protection active ingredients and new formulations
- Identification and development of new crop-protection formulations
- Plant-growth promoters, and nutrients
- Long-term stability testing
- Lab scale-up and technology transfer of active ingredients/formulations

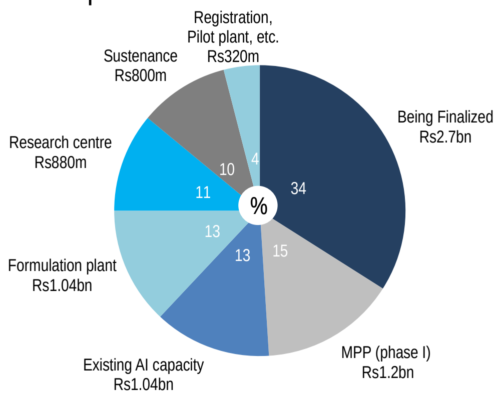
Capex to fuel growth

Over FY14-21, the company expended ~Rs6.5bn on capex. In Q3FY19, it had announced Rs8bn capex over the next five years to enhance capacities for formulations and for new active ingredients and backward integration. Management said that would help address mounting demand, improve manufacturing-cost efficiency and reduce import dependence. Furthermore, it would strengthen its domestic and international businesses.

To support its international business growth, it doubled its metribuzin capacity to 2,000tpa. Management says it enjoys ~20% of the global metribuzin market and expansion would support the mounting demand as weeds have grown resistant to other conventional herbicides.

At the Q2FY22 concall, management talked of Rs8bn capex; the company has till now finalised capex of Rs5.25bn.

Fig 28 – Capex break-up



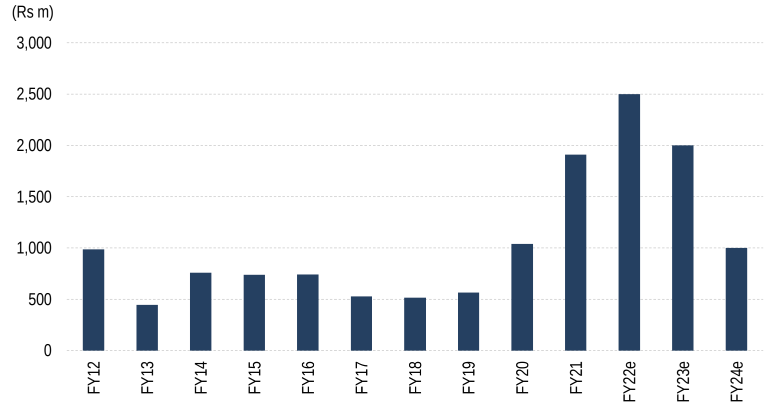
Source: Company

Covid-19 and labour issues delayed capex by a few months. The company has completed the first phase of the new formulations plant at Dahej and is awaiting regulatory approval to begin invoicing. Trial production at one of the lines has also been completed.

The new technical-grade plant at Ankleshwar for two active ingredients (acetamiprid and lambda cyhalothrin) is now commercialised. Good progress has been made regarding the new pilot plant (phase-1 commissioning expected in Q3 FY22) and the multi-purpose plant (MPP) at Dahej, expected to be commissioned by H1FY23, and which will yield at least one new active ingredient in FY23.

Management said it plans to set up another MPP for herbicides (timelines to be finalised in early FY23). The remaining capex would be finalised by Q1FY23. Management talked of Rs2.5bn capex in FY22.

Fig 29 – Capex in past years



Source: Company, Anand Rathi Research

RM imports: tapering dependence

Key raw materials for Rallis India are

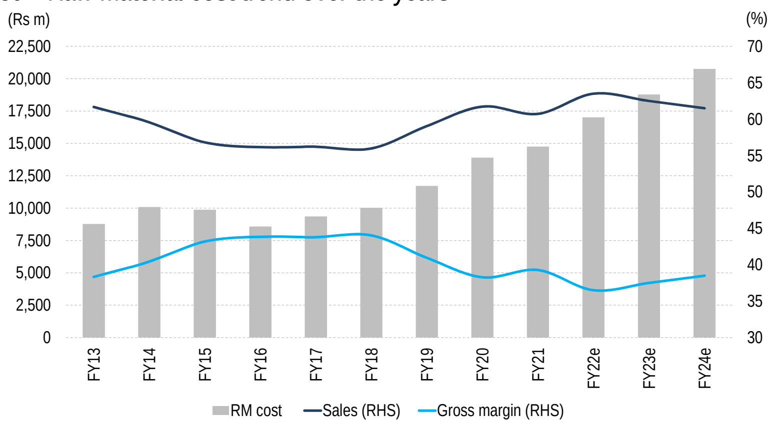
- Dimethyl Phosphoramidothioate (DMPAT)
- Triazinone
- DEK
- 4-Nitro-o-Xylene (4NoX)

Raw materials account for ~60% of Rallis' production costs. The company depends hugely on imports (~40% from China). Prices of key raw materials have risen substantially in the last few years due to stringent environmental norms and raw material scarcity in China.

To reduce dependence on imported raw material, the company is looking at other sources and at backward integration. It completed backward integration (and import substitution) in FY20 for one key raw material. It talked of investing in further backward integration.

Considering supply shortages, it has started maintaining greater stocks. Inventory days averaged 200 over FY18-21 from 140 over FY13-17. We expect the backward integration of key raw materials to help reduce the supply risk, and result in expanded margins.

Fig 30 – Raw-material cost trend over the years



Source: Company, Anand Rathi Research

Financials

12% revenue CAGR expected over FY22-24

Over FY13-FY21, revenue clocked a ~7% CAGR. We expect a 12% CAGR in revenue over FY22-24 (from FY18-21's 11%) to Rs33.8bn, from Rs24.3bn in FY21. Growth drivers in the home market are product launches, capex (backward integration, process improvement, expanded formulations capacity) and its strong focus on R&D. In its domestic crop-protection business, we expect a 10% revenue CAGR over FY22-24.

Internationally, the recent shift of demand from China to India, post Covid-19, the China-US trade war, mounting enquiries from key clients and a better position globally would drive growth. Short-term challenges, however, would persist in respect of lower volumes and prices of key products due to surplus stocks in the system. We expect its international business to clock a 15% CAGR over FY22-24,vs. 18% over FY18-21. The focus on CRAMS by adding products would support earnings growth.

The seeds business would clock a 7% CAGR over FY22-24, supported by more investment in its *rabi* seeds range and developing vegetable seeds.

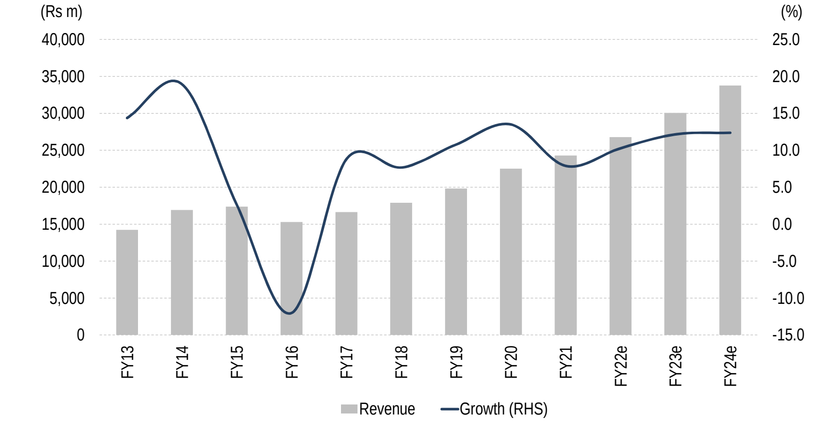
The long-term outlook for the Indian market and companies is rosy, and India is poised to capture a higher market-share of the crop-protection business because of its low-cost advantage, better manufacturing capacities, strong R&D capabilities and the rising global preference for India as a manufacturing and supply-chain hub.

Short-term challenges

In the domestic market, weak demand, pricing pressure and the ban on 27 products would curtail its operating performance. Furthermore, monsoon dependence and seasonality are directly related to its domestic business growth.

The seeds business may be faced with some challenges in the short term due to the increasing use of illegal cotton seed.

Fig 31 – Revenue to clock a 12% CAGR over FY21-24



Source: Company, Anand Rathi Research

EBITDA margin to improve

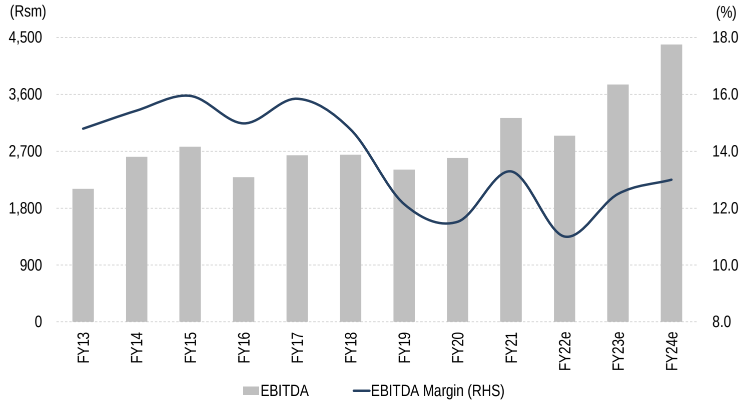
Over FY13-18, the EBITDA margin averaged ~15%, supported by better gross margins, which improved from 38% to 44%.

In FY19-20, the EBITDA margin contracted to ~12% due to the rise in raw material prices because of short supply from China as environmental issues led to the closure of many manufacturing units. The company's FY21 margin improved to 13.3% on strong operating leverage and efficiencies.

In H1FY22, Rallis reported a 14.3% EBITDA margin, down from 17.7% in H1 FY22. The margin contraction was due to higher input costs and operating expenses (freight costs). Overall we expect Rallis to report an 11% EBITDA margin in FY22 considering H2 is a seasonally soft quarter for it.

We expect the margin to improve to 12.5%/13% in FY23/FY24 considering launches, low-cost input prices due to backward integration (producing key raw materials) and the R&D focus on process improvement and efficiencies. With the margin expansion, a 22% EBITDA CAGR over FY22-24 is expected (vs. 5.5% over FY13-21 and 7% over FY18-21) from Rs3.3bn to Rs4.4bn

Fig 32 – EBITDA margin expansion over the years

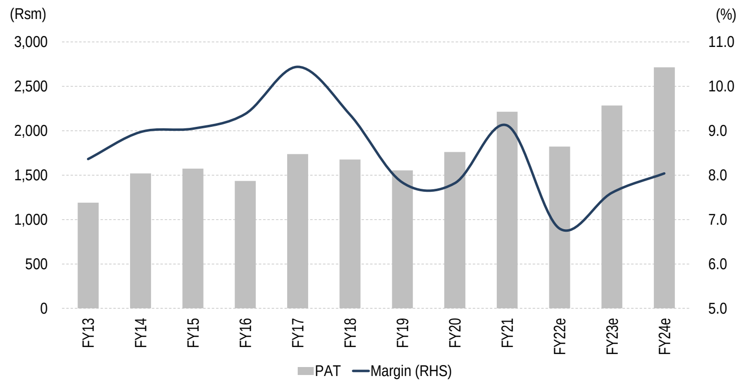


Source: Company, Anand Rathi Research

PAT to clock a 22% CAGR over FY22-24

Supported by revenue and the margin expansion, we expect net profit to clock a 22% CAGR over FY22-24 to Rs2.7bn. We estimate net profit growth to be higher than revenue growth largely because of the margin expansion and greater efficiency. The net-profit margin, too, driven by strong PAT growth, could expand from 6.8% in FY22 to 8% in FY24.

Fig 33 – Profit to clock a 22% CAGR over FY22-24

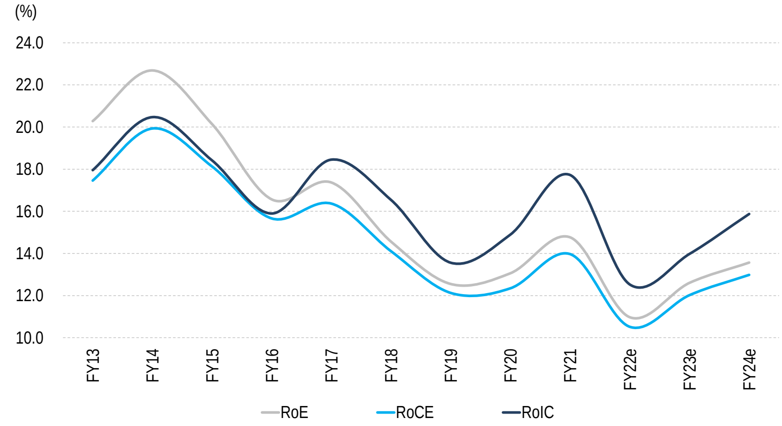


Source: Company, Anand Rathi Research

Healthy return ratios

With the margin expansion and PAT growth, return ratios are trending up. We expect them to keep improving. We estimate the RoE/RoCE to increase from 11%/10.5% in FY22 to 13.6%/13% in FY24. The RoIC would rise to 16% in FY24 (from 12.5% in FY22).

Fig 34 – Improving return ratios



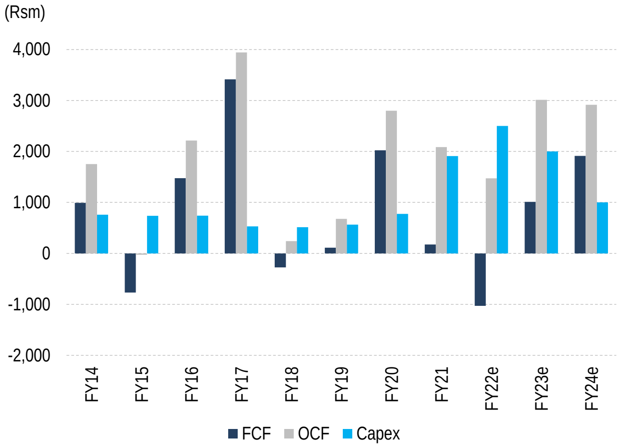
Source: Company, Anand Rathi Research

Free cash-flow generation, with strong balance sheet

Over FY14-21, ~Rs6.5bn was spent on capex. In Q3FY19, it announced Rs8bn capex in the next five years. At the Q2FY22 concall, management said it had finalised the investment of Rs5.25bn of the Rs8bn capex.

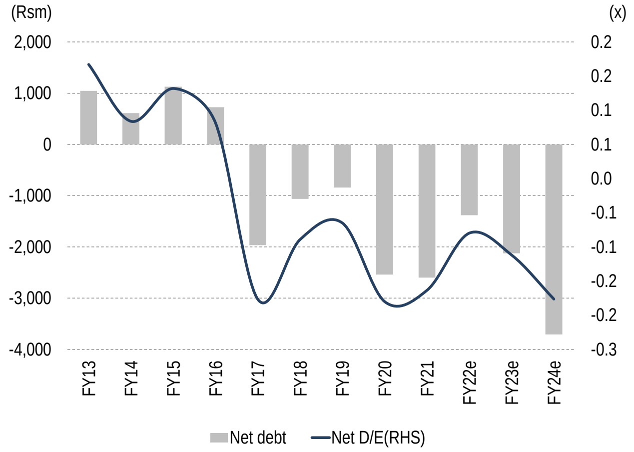
We estimate the company would invest Rs5.5bn over FY22-24. Despite strong capex investments, we estimate that Rallis would generate Rs1.9bn free cash-flows over this period, supported by a healthy balance sheet and better working-capital management. The company is debt-free and capex would be funded by internal accruals.

Fig 35 – FCF, capex & OCF



Source: Company, Anand Rathi Research

Fig 36 – Debt positioning



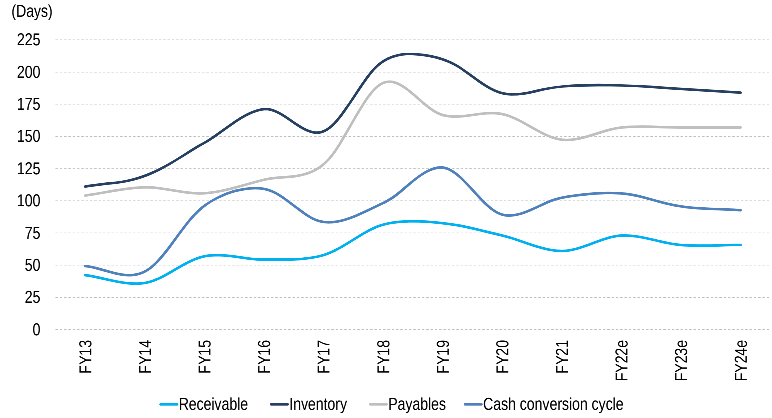
Source: Company, Anand Rathi Research

Cash-conversion cycle to be maintained at~90 days

The cash-conversion cycle lengthened to an average of 104 days over FY18-21, from 80 days over FY13-18. To shorten this, the company devised a working-capital strategy sharply focusing on domestic-debtor management and entered into strategic partnerships with financing companies (channel-partner financing).

We expect the cash-conversion cycle in FY22 to be on the higher side (~106 days considering that the company has to maintain greater stocks due to supply and international logistics issues), then decline to 94/90days in FY23/FY24.

Fig 37 – Working-capital cycle



Source: Company, Anand Rathi Research

Valuations

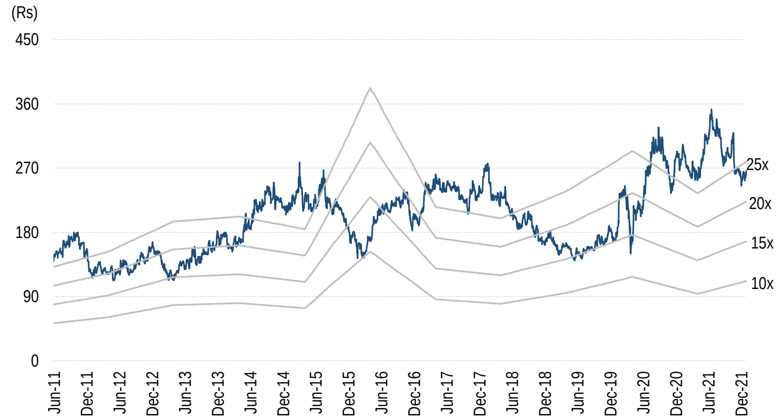
One of the leading companies in domestic agrochemicals, over the years Rallis has strengthened its position and now holds 6% and 3% market shares in crop protection, plant-growth nutrients and Seeds respectively.

We expect FY22 to be challenging for its seeds business (illegal cotton seeds) and for its EBITDA margin (higher RM, freight and operating costs).

We expect a steady recovery in margins from FY23, with revenue growth supported by ongoing capex, product launches, better CRAMS business and mounting export demand for Indian agricultural products globally.

The stock trades at 23.2x FY21 and 26.7x TTM EPS. We value it at 25x FY24 EPS, a bit higher than its 23x average (over FY11-FY21) considering higher revenues and steady margin. At this multiple, the TP works out to Rs350 a share.

Fig 38 – One year forward P/E band chart



Source: Bloomberg, Anand Rathi Research

Fig 39 – Peer Comparision (Valuation)

	CMP	Mcap	EV	P/E(x)				EV/EBITDA(x)				EV/Sales(x)				RoE(%)			
	(Rs)	(Rs bn)	(Rs bn)	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e
UPL Ltd	758	579	869	20.2	14.7	12.3	10.7	10.4	9.2	8.2	7.4	2.2	2.0	1.9	1.7	15.9	18.4	19.0	18.7
Sharda Cropchem	341	31	27	13.4	13.0	10.9	9.2	6.8	5.5	4.4	3.6	1.2	1.0	0.8	0.7	15.2	13.9	14.7	15.4
Sumitomo Chemicals	391	195	190	56.5	50.1	40.0	32.5	39.0	35.1	28.4	23.4	7.2	6.4	5.6	4.8	23.9	22.3	22.9	23.5
Dhanuka Agritech	725	34	32	16.0	16.1	14.4	12.9	12.1	12.0	10.6	9.4	2.3	2.2	2.0	1.8	26.7	23.9	22.5	20.8
PI Industries	3,001	455	435	61.7	52.9	43.0	35.6	42.7	36.3	29.4	24.6	9.5	8.1	6.8	5.8	18.0	15.3	16.3	16.9
Insecticides India	682	13	15	14.3	11.2	9.3	8.0	10.0	8.3	7.0	5.9	1.1	1.0	0.9	0.8	10.5	13.3	14.1	13.6
India Pesticides	319	37	35	27.3	22.2	17.5	18.3	19.3	16.0	12.5	13.1	5.5	4.5	3.7	3.8	41.6	30.5	25.3	23.9
Industry (Average)				29.9	25.7	21.1	18.2	20.0	17.5	14.4	12.5	4.1	3.6	3.1	2.8	15.0	12.3	14.5	15.1
Rallis India	267	52	49	23.4	28.4	22.7	19.1	15.3	17.2	13.3	11.0	2.0	1.9	1.7	1.4	14.8	11.0	12.6	13.6

Source: Bloomberg, Anand Rathi Research

Fig 40 – Peer Comparision (Financials)

	Revenue (Rs bn)				EBITDA(Rs bn)				PAT (Rs bn)				CAGR % (FY22-24)			EPS (Rs)			
	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e	FY21	FY22e	FY23e	FY24e	Revenue	EBITDA	PAT	FY21	FY22e	FY23e	FY24e
UPL Ltd	386.9	430.5	466.5	506.7	83.5	94.8	105.8	116.9	28.7	39.5	47.2	54.3	8.5	11.0	17.3	41.0	56.3	67.4	77.5
Sharda Cropchem	24.0	28.7	33.3	38.0	4.2	5.2	6.2	7.2	2.3	2.4	2.8	3.3	15.1	17.6	18.6	25.4	26.3	31.3	36.9
Sumitomo Chemicals	26.4	29.6	34.3	39.9	4.9	5.4	6.7	8.1	3.5	3.9	4.9	6.0	16.1	22.4	24.1	6.9	7.8	9.8	12.0
Dhanuka Agritech	13.9	14.7	16.4	18.4	2.7	2.7	3.1	3.5	2.1	2.1	2.4	2.6	11.8	13.2	11.7	45.2	45.2	50.5	56.4
PI Industries	45.8	53.9	64.2	75.6	10.2	12.0	14.8	17.6	7.4	8.6	10.6	12.8	18.4	21.4	21.9	48.6	56.6	69.6	84.0
Insecticides India	14.2	16.1	17.4	19.4	1.5	1.9	2.2	2.6	0.9	1.2	1.4	1.7	9.7	18.8	18.1	45.4	58.3	70.1	81.3
India Pesticides	6.5	7.8	9.5	9.3	1.8	2.2	2.8	2.7	1.3	1.7	2.1	2.0	9.0	10.4	10.0	11.7	14.4	18.2	17.4
Rallis India	24.3	26.8	30.0	33.8	3.2	2.9	3.8	4.4	2.2	1.8	2.3	2.7	12.3	22.0	22.0	9.4	11.8	14.0	18.2

Source: Bloomberg, Anand Rathi Research

Key risks

- Banning of 27 pesticides as announced in the draft document by the government of India
- Failure to diversify to a non-*kharif* range of seeds
- Greater demand for illegal herbicide-tolerant cotton seed
- Monsoon dependence
- Delay in launching products
- Slowdown in R&D and in a new-product pipeline
- Adverse regulatory policies
- Unfavourable forex movements.

Company Background, Management

Technically-qualified management

Fig 41 – Management

Name	Designation	Description
Bhaskar Bhat	Chairman	B.Tech (mechanical engineering), IIT Madras; post-graduate diploma in management, IIM, Ahmedabad. Extensive experience and expertise in sales and marketing. Appointed MD on 1st Apr'02, till superannuation. Then, appointed non-executive non-independent director w.e.f 1st Oct'19. Appointed on the Board in Oct'15 and became Chairman in Dec'15.
Sanjiv Lal	MD and CEO	Chemical engineering graduate, IIT, New Delhi. Earlier, was COO, the India chemicals business of Tata Chemicals. On joining Tata Chemicals in 2004, handled its agri-retail business, headed the organisational-transformation and business-excellence and information-technology functions and was nominated Joint MD to IMACID, a JV in Morocco. Before joining Tata Chemicals, was with HUL for 21 years in various functions. Appointed on the Board as MD and CEO on 1st Apr'19
C.V. Natraj	Non-executive independent director	Ph.D. (chemistry), IIS, Bangalore. Post-doctoral research in biochemistry, University of Michigan, Ann Arbor. More than 30 years' experience in research. Headed the research function as Director on the Board of HUL; later led the corporate-research function as Senior VP. Appointed to the Rallis' Board in Jul'16
Padmini Khare Kaicker	Non-executive independent director	CA, certified public accountant (USA) and diploma in business finance, Institute of Chartered Financial Analysts of India. MD, B.K. Khare & Co., one of the leading Indian accounting firms. Has wide and varied experience in audit, taxation, corporate finance, risk management, corporate governance, M&A and restructuring. On the Boards of several companies; Director on Rallis' Board since Jul'16
Punita Kumar Sinha	Non-executive independent director	Master's and Ph.D. in Finance, Wharton School, University of Pennsylvania; MBA, Drexel University; chemical engineering, IIT, New Delhi. CFA. Over three decades' experience in fund management in emerging markets. On several Boards. Numerous years of experience in corporate governance. Inducted on Rallis' board in Mar'14
R. Mukundan	Non-executive non-independent director	Engineer from IIT, Roorkee. Joined Tata Administrative Services in 1990, after MBA from FMS, Delhi University. Harvard Business School alumnus. Various responsibilities with the Tata Group in the chemicals, automotive and hospitality sectors. MD & CEO, Tata Chemicals. Appointed on the board of Rallis in Dec'09
Subhra Gourisaria	CFO	Over 17 years' experience in business finance, financial strategy, P&L management, controllership and handling financial operations in multi-geographical businesses. Till recently was general manager, finance, home care (South Asia) at HUL

Source: Company

Appendix

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