

June 29, 2022

## Company Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		HOLD	
Target Price	230		260	
Sales (Rs. m)	29,234	32,692	29,528	33,264
% Chng.	(1.0)	(1.7)		
EBITDA (Rs. m)	3,228	4,063	3,654	4,473
% Chng.	(11.7)	(9.2)		
EPS (Rs.)	9.8	12.6	11.7	14.7
% Chng.	(16.2)	(14.5)		

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	24,294	26,039	29,234	32,692
EBITDA (Rs. m)	3,229	2,741	3,228	4,063
Margin (%)	13.3	10.5	11.0	12.4
PAT (Rs. m)	2,191	1,642	1,905	2,442
EPS (Rs.)	11.3	8.4	9.8	12.6
Gr. (%)	22.0	(25.1)	16.0	28.2
DPS (Rs.)	3.0	3.0	3.5	4.0
Yield (%)	1.6	1.6	1.9	2.1
RoE (%)	14.6	10.0	10.9	13.0
RoCE (%)	16.7	11.8	12.7	15.4
EV/Sales (x)	1.4	1.3	1.2	1.0
EV/EBITDA (x)	10.3	12.5	10.6	8.2
PE (x)	16.6	22.1	19.1	14.9
P/BV (x)	2.3	2.1	2.0	1.9

### Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.342 / Rs.183
Sensex / Nifty	53,027 / 15,799
Market Cap	Rs.36bn/ \$ 460m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.133.17m

### Shareholding Pattern (%)

Promoter's	50.09
Foreign	6.08
Domestic Institution	16.07
Public & Others	27.76
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(6.5)	(30.2)	(42.6)
Relative	(3.2)	(23.9)	(43.1)

Himanshu Binani

himanshubinani@plindia.com | 91-22-66322232

## Margin pressure likely to persist in near term..!!

### Quick Pointers:

- Reduced FY23/24 estimates by 16%/15% citing margin pressures in the near term.
- Exports in a better position, led by healthier demand and lower base of last year.

**We trim our FY23/24E EPS estimates by 16%/15% citing pressure on near term margins and upgrade the rating to 'BUY' from HOLD with revised TP of Rs230 (Rs260 earlier) based on 18x FY24 EPS. Management stated that recent correction in RM prices coupled with high cost inventory will exert pressures on 1HFY23 margins. However, 4-5% price hikes (as compared to Mar-22 levels) will help to partially mitigate the same.**

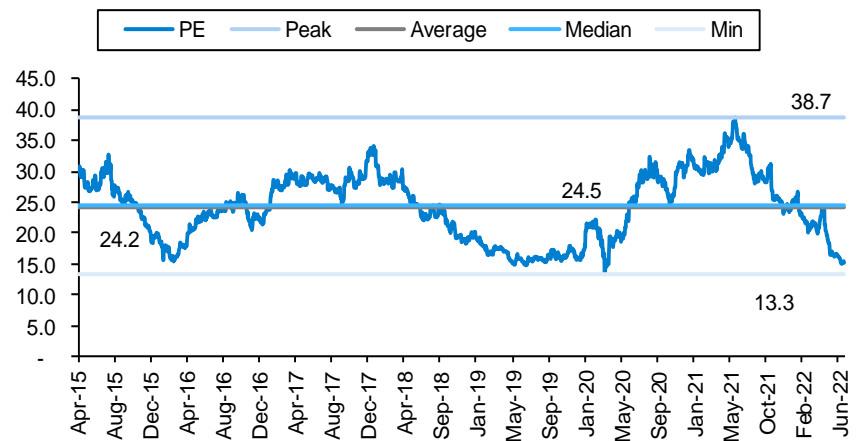
**Rallis India (RALI) in its first ever pre-quarterly conference call highlighted that (a) domestic crop care and seeds segment will likely post stable performance in 1QFY23, placements have progressed as per plan and liquidation will take place in subsequent quarters; (b) delayed monsoons do have an impact in terms of placements and liquidation, while some crop shift patterns are visible in cotton and paddy crops; (c) exports will likely grow better than other segments (lower base of last year -8% YoY to aid growth); (d) pressure on margins likely to persist in near term, however, remains confident to maintain absolute EBITDA; (e) price hikes taken to the tune of 4-5% as compared to March'22 levels to mitigate inflated RM cost; and (f) capex plans are on schedule. We expect revenue/PAT CAGR of 10%/4% over FY22-24E (vs 8%/3% over FY11-22). Upgrade to 'BUY' given recent correction in stock price (down >30%).**

**Slowdown in placements led by delayed monsoons:** Cumulative rainfall has narrowed down from -45% deficit in the 1st week of June'22 to a low single digit deficit (-4% as on 24th June'22) largely led by floods in Assam and North eastern belt; however spatial distribution of monsoons has been on the lower end. This in turn has resulted in slowdown of ground activities in terms of product placements as well as liquidation standpoint. RALI has taken price hikes to the tune of 4-5% across portfolio to pass on inflated RM cost during 1QFY23. Hence, with expectation of normal monsoons over next few weeks coupled with remunerative crop prices, RALI remains hopeful for decent performance in domestic business.

**Exports likely to fair well; aided by a lower base of last year:** RALI remained largely buoyant on the exports business, led by better demand momentum in global markets. We believe that enhanced capacities in export business coupled with lower base of last year (down 8% YoY in 1QFY22) will likely support growth. However, management cited margin pressures on exports business in the near term. We expect revenue growth of 9% YoY in 1QFY23, led by domestic and export growth of 8% and 20%, respectively.

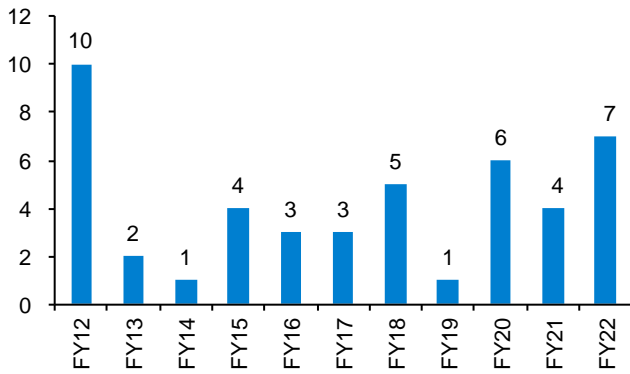
**Seeds – progressing as per plan; liquidation likely in 2Q:** RALI stated that seeds business is progressing as per plan. Due to delayed monsoons, liquidation has been impacted, while there have been some visible crop shift patterns in cotton and paddy crops. Demand for cotton seeds was impacted due to (a) delayed monsoon in Maharashtra, impacting sowing activities and (b) increased usage of illegal BT cotton seeds. Liquidation of inventories was seen in North India because of better rainfall. However, it remained slow. Next few weeks will be crucial in terms of rainfall and inventory liquidation. While for paddy seeds, the trend is towards selected seeds in certain markets of UP.

**Exhibit 1: One Year Forward Price / Earnings**



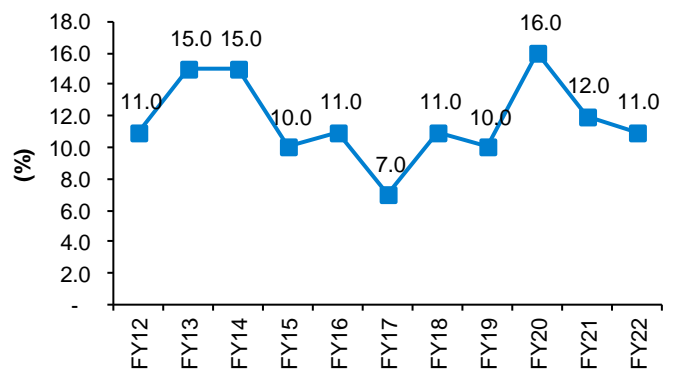
Source: Company, PL

**Exhibit 2: Consistently launching new products**



Source: Company, PL

**Exhibit 3: Confident to regain lost momentum in ITI Index\***



Source: Company, PL \*ITI Index- Innovation Turnover Index

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>24,294</b>	<b>26,039</b>	<b>29,234</b>	<b>32,692</b>
YoY gr. (%)	7.9	7.2	12.3	11.8
Cost of Goods Sold	14,752	16,236	18,190	20,004
Gross Profit	9,542	9,804	29,234	32,692
Margin (%)	39.3	37.6	100.0	100.0
Employee Cost	2,160	2,391	2,654	2,946
Other Expenses	4,153	4,672	5,162	5,678
<b>EBITDA</b>	<b>3,229</b>	<b>2,741</b>	<b>3,228</b>	<b>4,063</b>
YoY gr. (%)	24.5	(15.1)	17.8	25.9
Margin (%)	13.3	10.5	11.0	12.4
Depreciation and Amortization	641	743	928	1,070
<b>EBIT</b>	<b>2,588</b>	<b>1,997</b>	<b>2,300</b>	<b>2,993</b>
Margin (%)	10.7	7.7	7.9	9.2
Net Interest	52	48	55	60
Other Income	405	275	302	332
<b>Profit Before Tax</b>	<b>2,941</b>	<b>2,224</b>	<b>2,547</b>	<b>3,265</b>
Margin (%)	12.1	8.5	8.7	10.0
Total Tax	749	582	642	823
Effective tax rate (%)	25.5	26.2	25.2	25.2
<b>Profit after tax</b>	<b>2,191</b>	<b>1,642</b>	<b>1,905</b>	<b>2,442</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,191</b>	<b>1,642</b>	<b>1,905</b>	<b>2,442</b>
YoY gr. (%)	22.0	(25.1)	16.0	28.2
Margin (%)	9.0	6.3	6.5	7.5
Extra Ord. Income / (Exp)	95	-	-	-
<b>Reported PAT</b>	<b>2,286</b>	<b>1,642</b>	<b>1,905</b>	<b>2,442</b>
YoY gr. (%)	22.2	(28.2)	16.0	28.2
Margin (%)	9.4	6.3	6.5	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,286	1,642	1,905	2,442
<b>Equity Shares O/s (m)</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>
<b>EPS (Rs)</b>	<b>11.3</b>	<b>8.4</b>	<b>9.8</b>	<b>12.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,580</b>	<b>9,875</b>	<b>12,375</b>	<b>13,375</b>
Tangibles	7,580	9,875	12,375	13,375
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,708</b>	<b>3,451</b>	<b>4,379</b>	<b>5,449</b>
Tangibles	2,708	3,451	4,379	5,449
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,872</b>	<b>6,424</b>	<b>7,996</b>	<b>7,926</b>
Tangibles	4,872	6,424	7,996	7,926
Intangibles	-	-	-	-
Capital Work In Progress	1,165	667	667	667
Goodwill	1,958	1,958	1,958	1,958
Non-Current Investments	32	32	32	32
Net Deferred tax assets	(264)	(213)	(213)	(213)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	2,803	2,087	2,087	2,087
Inventories	7,632	9,380	9,219	10,139
Trade receivables	4,063	4,459	5,007	5,599
Cash & Bank Balance	551	631	556	1,441
Other Current Assets	1,464	1,340	1,474	1,621
<b>Total Assets</b>	<b>25,886</b>	<b>28,580</b>	<b>30,774</b>	<b>33,442</b>
<b>Equity</b>				
Equity Share Capital	195	195	195	195
Other Equity	15,714	16,772	17,858	19,363
<b>Total Network</b>	<b>15,908</b>	<b>16,967</b>	<b>18,052</b>	<b>19,558</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	78	38	38	38
Provisions	751	806	806	806
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	301	542	542	542
Trade payables	5,961	7,525	7,974	8,769
Other current liabilities	2,617	2,489	3,149	3,517
<b>Total Equity &amp; Liabilities</b>	<b>25,886</b>	<b>28,580</b>	<b>30,774</b>	<b>33,442</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,035	2,224	2,547	3,265
Add. Depreciation	641	743	928	1,070
Add. Interest	52	48	55	60
Less Financial Other Income	405	275	302	332
Add. Other	(212)	80	(302)	(332)
Op. profit before WC changes	3,516	3,095	3,228	4,063
Net Changes-WC	(602)	(750)	411	(691)
Direct tax	(746)	(688)	(642)	(823)
<b>Net cash from Op. activities</b>	<b>2,168</b>	<b>1,658</b>	<b>2,997</b>	<b>2,549</b>
Capital expenditures	(1,528)	(1,773)	(2,500)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	(87)	731	302	332
<b>Net Cash from Inv. activities</b>	<b>(1,616)</b>	<b>(1,042)</b>	<b>(2,198)</b>	<b>(668)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(165)	(13)	(55)	(60)
Dividend paid	(488)	(585)	(819)	(937)
Interest paid	-	-	-	-
Others	(21)	(17)	-	-
<b>Net cash from Fin. activities</b>	<b>(674)</b>	<b>(614)</b>	<b>(874)</b>	<b>(997)</b>
<b>Net change in cash</b>	<b>(122)</b>	<b>2</b>	<b>(75)</b>	<b>884</b>
Free Cash Flow	847	141	497	1,549

Source: Company Data, PL Research

**Key Financial Metrics**

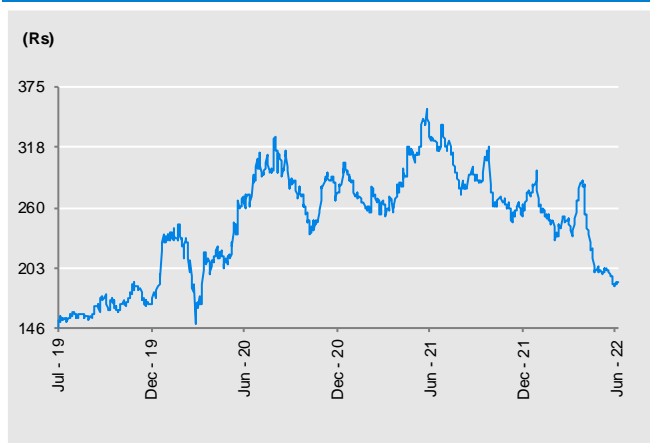
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	11.3	8.4	9.8	12.6
CEPS	14.6	12.3	14.6	18.1
BVPS	81.8	87.2	92.8	100.6
FCF	4.4	0.7	2.6	8.0
DPS	3.0	3.0	3.5	4.0
<b>Return Ratio(%)</b>				
RoCE	16.7	11.8	12.7	15.4
ROIC	15.9	10.4	11.1	14.1
RoE	14.6	10.0	10.9	13.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	86	89	78	78
<b>Valuation(x)</b>				
PER	16.6	22.1	19.1	14.9
P/B	2.3	2.1	2.0	1.9
P/CEPS	12.8	15.2	12.8	10.3
EV/EBITDA	10.3	12.5	10.6	8.2
EV/Sales	1.4	1.3	1.2	1.0
Dividend Yield (%)	1.6	1.6	1.9	2.1

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Revenue</b>	<b>7,405</b>	<b>7,278</b>	<b>6,281</b>	<b>5,075</b>
YoY gr. (%)	11.7	0.4	10.1	7.7
Raw Material Expenses	4,529	4,641	3,755	3,311
Gross Profit	2,876	2,637	2,526	1,765
Margin (%)	38.8	36.2	40.2	34.8
<b>EBITDA</b>	<b>1,215</b>	<b>880</b>	<b>674</b>	<b>(28)</b>
YoY gr. (%)	(5.3)	(24.6)	12.1	(116.0)
Margin (%)	16.4	12.1	10.7	(0.6)
Depreciation / Depletion	185	177	184	197
<b>EBIT</b>	<b>1,030</b>	<b>702</b>	<b>490</b>	<b>(225)</b>
Margin (%)	13.9	9.7	7.8	(4.4)
Net Interest	9	12	14	12
Other Income	70	75	55	75
<b>Profit before Tax</b>	<b>1,091</b>	<b>765</b>	<b>531</b>	<b>(162)</b>
Margin (%)	14.7	10.5	8.4	(3.2)
Total Tax	268	201	135	(21)
Effective tax rate (%)	24.5	26.2	25.5	12.9
<b>Profit after Tax</b>	<b>823</b>	<b>564</b>	<b>396</b>	<b>(142)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>823</b>	<b>565</b>	<b>396</b>	<b>(142)</b>
YoY gr. (%)	(10.4)	(30.5)	0.1	(320.3)
Margin (%)	11.1	7.8	6.3	(2.8)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>823</b>	<b>565</b>	<b>396</b>	<b>(142)</b>
YoY gr. (%)	(10.4)	(31.9)	(13.3)	(274.8)
Margin (%)	11.1	7.8	6.3	(2.8)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>823</b>	<b>565</b>	<b>396</b>	<b>(142)</b>
Avg. Shares O/s (m)	195	195	195	195
<b>EPS (Rs)</b>	<b>4.2</b>	<b>2.9</b>	<b>2.0</b>	<b>(0.7)</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Apr-22	Hold	260	254
2	08-Apr-22	Hold	280	263
3	20-Jan-22	Hold	280	277
4	12-Jan-22	Accumulate	270	279
5	27-Dec-21	Accumulate	270	257
6	22-Jul-21	Hold	321	326
7	06-Jul-21	Hold	321	323

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,640	5,360
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	870	672
4	Godrej Agrovet	Accumulate	614	526
5	Insecticides India	Hold	680	774
6	P.I. Industries	BUY	3,340	2,485
7	Rallis India	Hold	260	254
8	Sharda Cropchem	BUY	750	646
9	Sumitomo Chemical India	BUY	510	440
10	UPL	BUY	1,010	778

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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