

July 21, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	230		230	
Sales (Rs. m)	29,662	33,784	29,234	32,692
% Chng.	1.5	3.3		
EBITDA (Rs. m)	3,312	4,081	3,228	4,063
% Chng.	2.6	0.4		
EPS (Rs.)	9.9	12.5	9.8	12.6
% Chng.	1.4	(0.3)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	24,294	26,039	29,662	33,784
EBITDA (Rs. m)	3,229	2,741	3,312	4,081
Margin (%)	13.3	10.5	11.2	12.1
PAT (Rs. m)	2,191	1,642	1,931	2,434
EPS (Rs.)	11.3	8.4	9.9	12.5
Gr. (%)	22.0	(25.1)	17.6	26.0
DPS (Rs.)	3.0	3.0	3.5	4.0
Yield (%)	1.5	1.5	1.7	2.0
RoE (%)	14.6	10.0	11.0	12.9
RoCE (%)	16.7	11.8	13.2	15.5
EV/Sales (x)	1.5	1.4	1.3	1.1
EV/EBITDA (x)	11.4	13.8	11.4	9.1
PE (x)	18.2	24.3	20.6	16.4
P/BV (x)	2.5	2.3	2.2	2.0

Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.337 / Rs.183
Sensex / Nifty	55,398 / 16,521
Market Cap	Rs.40bn/ \$ 498m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.108.98m

Shareholding Pattern (%)

Promoter's	50.09
Foreign	6.02
Domestic Institution	16.13
Public & Others	28.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.5	(26.1)	(37.4)
Relative	2.9	(20.7)	(41.0)

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Healthy revenue growth offset by miss in margin

Quick Pointers:

- Domestic/exports business grew 17%/51% YoY in 1QFY23.
- Seeds business flat YoY largely led by higher provision and lower liquidation.

Rallis India (RALI) 1QFY23 results were lower than our/cons expectations primarily led by miss on the margins front. Despite revenue growth being higher than our/consensus estimates however lower operational performance in the seeds segment dented the overall performance. Challenges in terms of higher provision of stocks coupled with lower liquidation and crop shifts in the seeds segment resulted into an overall miss into estimates. Key highlights are: (a) domestic revenue grew 17% YoY led by both price and volume growth of 11%/6% YoY respectively ; while crop care segment was up 27% YoY (+17%/+10% price and volume growth respectively); (b) export revenues were up 51% YoY (+25%/26% in terms of price and volumes); (c) seeds revenue remained flat YoY;Rs130mn provisions included in 1QFY23; (d) pressure on margins continues leading to EBITDA decline of 7% YoY; (e) launched 1 new herbicide each in cotton and paddy; with 3 new paddy hybrids and 1 tomato hybrid in seeds segment during 1QFY23 and (f) CRAMS gaining traction; PEKK to revive by end of FY23.

Going forward, management remained hopeful of good monsoons however remained cautious on high channel inventory amid a falling RM cost scenario. While on the exports business with enhanced capacities coupled with favorable base and robust demand is likely to support growth in the near term. We largely keep our estimates unchanged for FY23/24E. We expect RALI to clock revenue/PAT CAGR of 14%/22% over FY22-FY24E, led by domestic market share gain and export ramp-up. Maintain BUY rating on the stock with unchanged TP of Rs230 based on 18x FY24 EPS.

Decent revenue growth offset by lower margins: Consolidated revenues stood at Rs8.6bn up 17% YoY (PLe Rs8.05bn) primarily driven by 12%/5% YoY growth in Price/volumes respectively. Domestic/exports revenues were up 17%/51% YoY respectively. While the overall crop care segment was up by 27% YoY (17%/10% price/volumes). However, seeds revenues remained flat on YoY basis. Despite taking price hikes in the range of 4-5% across portfolio in crop protection business, higher provision of seeds (Rs130mn) coupled with lower liquidation and crop shifts has resulted into a gross margins contraction of 300bps YoY to 35.8%. Crop care EBITDA margin increased by 140bps YoY to 9.5%, while seeds segment reported margin contraction of 980bps YoY to 21%. Other income dipped by 42% YoY to Rs40mn led by a) lower export incentives and b) lower yield on liquid investments. Adjusted PAT came at Rs668mn (PLe Rs788mn) down 19% YoY.

Other key highlights

- **New Product launches:** RALI 1 new herbicide each in cotton and paddy; with 3 new paddy hybrids and 1 tomato hybrid in seeds segment during 1QFY23
- **Exports business:** Exports have been doing well; there has been volume and price increase in exports; while the company achieved Rs1bn run-rate in June'22. Going forward, exports revenues to be fairly close to this numbers aided by enhanced capacities. Pendimethalin situation remains fairly tight in terms of one Key starting material (KSM) is concerned; RALI has tied up with one local supplier for it; hence supplies likely to improve. In Metribuzin RALI expects optimum capacity by end of 2QFY23; while inventory situation has started to ease out particularly in the US markets. Metribuzin prices are trending higher; volumes are picking up; however, prices will ease off going forward; which would normalize the growth.
- **Exports to contribute 40% of overall revenues by FY25e:** RALI intends to achieve 40% revenues contribution from exports by FY25e from 33% currently. Growth in exports likely to be driven by (a) new product launches; (b) enhanced capacities in existing products; (c) increasing business from existing and newer customers; (d) higher registrations in the formulation business (currently contributing 20% of the overall exports revenues) in geographies like Brazil. In 1QFY23, RALI received registrations for its Acephate brand in 27 states of Brazil. While, they have also commercialized two branded products in Myanmar and Uganda.
- **Seeds business:** Seeds revenues were flat YoY during 1QFY23 largely led by (a) higher provision of Rs130mn during the quarter; (b) lower liquidation due to delayed monsoons and (c) crop shift patterns visible in cotton and paddy crop. Going forward, management expects the seeds business to remain under pressure as 1Q happens to be the biggest quarters for seeds.
- **Capex Guidance:** RALI has guided for Rs2.5bn of capex in FY23E. Formulation plant at Dahej fully commissioned and commercial production has started with better utilisation levels from 2HFY23 onwards. One new herbicide MPP at Dahej is progressing as per plan and is expected to be commissioned by November'22.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

(Rs mn)	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)	FY23E	FY22	YoY gr. (%)
Revenues	8,628	7,405	16.5	5,075	70.0	29,662	26,039	13.9
Raw material	5,535	4,529	22.2	3,311	67.2	18,511	16,236	14.0
Staff costs	660	598	10.3	552	19.5	2,654	2,391	11.0
Others	1,306	1,063	22.9	1,241	5.2	5,185	4,672	11.0
Total expenditure	7,501	6,190	21.2	5,104	47.0	26,351	23,299	13.1
EBITDA	1,127	1,215	(7.3)	(28)	NA	3,312	2,741	20.8
Depreciation	247	185	33.4	197	25.5	928	743	24.9
EBIT	880	1,030	(14.6)	(225)	NA	2,384	1,997	19.3
Interest	17	9	79.6	12	35.8	55	48	14.8
Add: Other income	40	70	(42.5)	75	(46.3)	288	275	5.0
Profit Before Tax	903	1,091	(17.2)	(162)	NA	2,617	2,224	17.7
Less: Provision for Tax	235	268	(12.2)	(21)	NA	686	582	17.8
Less: Minority Interest	-	-	NA	0	NA	-	-	-
Adjusted Profit	668	823	(18.8)	(142)	NA	1,931	1,642	17.6
Add: Exceptional items (net of tax)	6	-	NA	-	NA	-	-	-
Reported Profit	675	823	(18.1)	(142)	NA	1,931	1,642	17.6
No. of shares (mn)	195	195		195		195	195	
Adjusted Diluted EPS	3.4	4.2	(18.8)	(0.7)	NA	9.9	8.4	17.6
As % of net revenues								
Raw material	64.2	61.2		65.2		62.4	62.4	
Staff expenses	7.6	8.1		10.9		8.9	9.2	
Other expenses	15.1	14.3		24.5		17.5	17.9	
EBITDA	13.1	16.4		(0.6)		11.2	10.5	
Net profit	7.7	11.1		(2.8)		6.5	6.3	

Source: Company, PL

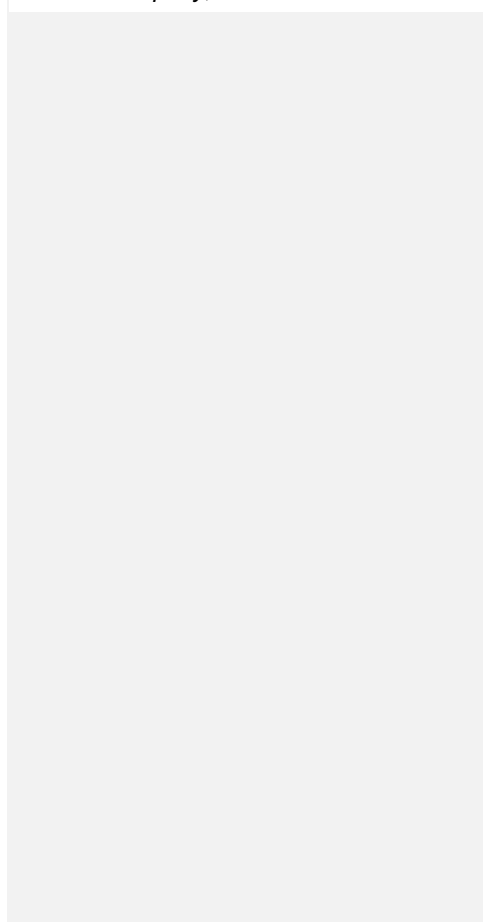
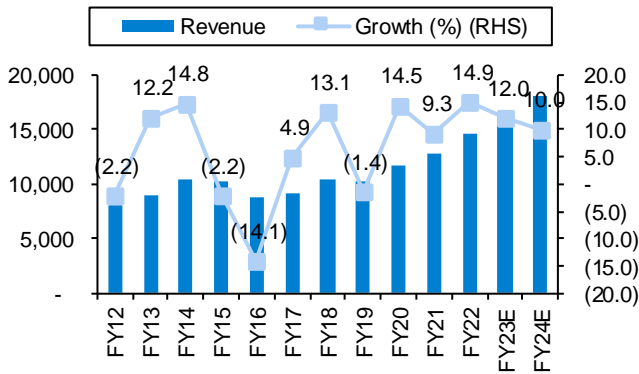
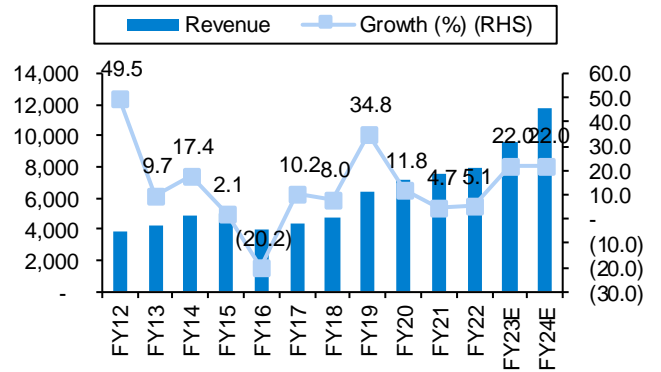


Exhibit 2: Price hikes in domestic business to support growth (Rs mn)



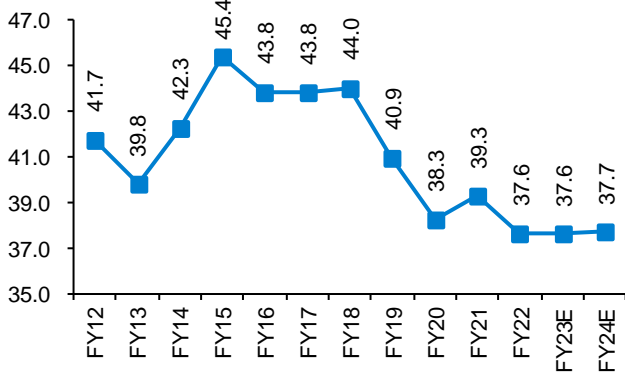
Source: Company, PL

Exhibit 3: Favorable base impact in Int'l business (Rs mn)



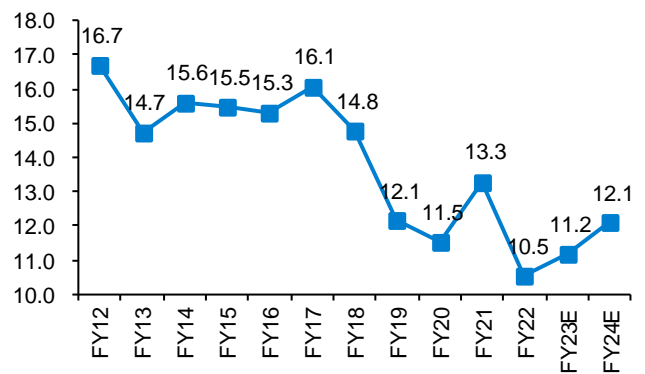
Source: Company, PL

Exhibit 4: Gross Margin likely to be under pressure.. (%)



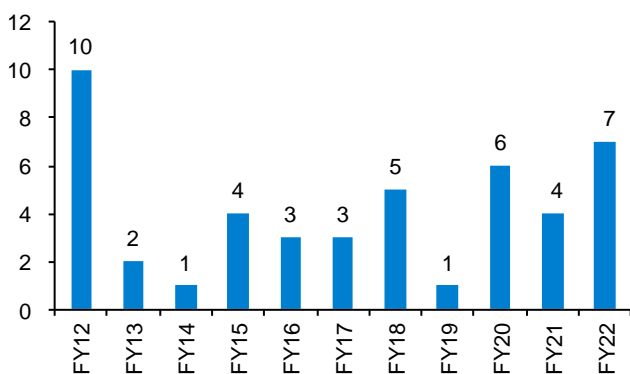
Source: Company, PL

Exhibit 5: ..resulting into moderate growth in EBITDA margin (%)



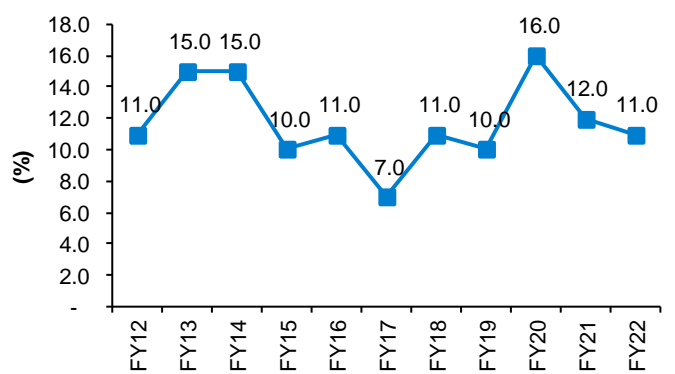
Source: Company, PL

Exhibit 6: Consistently banging on new products



Source: Company, PL

Exhibit 7: ITI momentum disrupted due to slowdown in market development led by COVID-19



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	24,294	26,039	29,662	33,784
YoY gr. (%)	7.9	7.2	13.9	13.9
Cost of Goods Sold	14,752	16,236	18,511	21,052
Gross Profit	9,542	9,804	29,662	33,784
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	5,185	5,704
EBITDA	3,229	2,741	3,312	4,081
YoY gr. (%)	24.5	(15.1)	20.8	23.2
Margin (%)	13.3	10.5	11.2	12.1
Depreciation and Amortization	641	743	928	1,070
EBIT	2,588	1,997	2,384	3,011
Margin (%)	10.7	7.7	8.0	8.9
Net Interest	52	48	55	60
Other Income	405	275	288	303
Profit Before Tax	2,941	2,224	2,617	3,254
Margin (%)	12.1	8.5	8.8	9.6
Total Tax	749	582	686	820
Effective tax rate (%)	25.5	26.2	26.2	25.2
Profit after tax	2,191	1,642	1,931	2,434
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,191	1,642	1,931	2,434
YoY gr. (%)	22.0	(25.1)	17.6	26.0
Margin (%)	9.0	6.3	6.5	7.2
Extra Ord. Income / (Exp)	95	-	-	-
Reported PAT	2,286	1,642	1,931	2,434
YoY gr. (%)	22.2	(28.2)	17.6	26.0
Margin (%)	9.4	6.3	6.5	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,286	1,642	1,931	2,434
Equity Shares O/s (m)	195	195	195	195
EPS (Rs)	11.3	8.4	9.9	12.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	7,580	9,875	12,375	13,375
Tangibles	7,580	9,875	12,375	13,375
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,708	3,451	4,379	5,449
Tangibles	2,708	3,451	4,379	5,449
Intangibles	-	-	-	-
Net fixed assets	4,872	6,424	7,996	7,926
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	-	-	-	-
Current Assets				
Investments	2,803	2,087	2,087	2,087
Inventories	7,632	9,380	9,382	10,670
Trade receivables	4,063	4,459	5,080	5,786
Cash & Bank Balance	551	631	512	1,208
Other Current Assets	1,464	1,340	1,474	1,621
Total Assets	25,886	28,580	30,965	33,928
Equity				
Equity Share Capital	195	195	195	195
Other Equity	15,714	16,772	17,884	19,381
Total Network	15,908	16,967	18,079	19,576
Non-Current Liabilities				
Long Term borrowings	78	38	38	38
Provisions	751	806	806	806
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	301	542	542	542
Trade payables	5,961	7,525	8,114	9,228
Other current liabilities	2,617	2,489	3,174	3,525
Total Equity & Liabilities	25,886	28,580	30,965	33,928

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,035	2,224	2,617	3,254
Add. Depreciation	641	743	928	1,070
Add. Interest	52	48	55	60
Less Financial Other Income	405	275	288	303
Add. Other	(212)	80	(288)	(303)
Op. profit before WC changes	3,516	3,095	3,312	4,081
Net Changes-WC	(602)	(750)	341	(871)
Direct tax	(746)	(688)	(686)	(820)
Net cash from Op. activities	2,168	1,658	2,967	2,390
Capital expenditures	(1,528)	(1,773)	(2,500)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	(87)	731	288	303
Net Cash from Invt. activities	(1,616)	(1,042)	(2,212)	(697)
Issue of share cap. / premium	-	-	-	-
Debt changes	(165)	(13)	(55)	(60)
Dividend paid	(488)	(585)	(819)	(937)
Interest paid	-	-	-	-
Others	(21)	(17)	-	-
Net cash from Fin. activities	(674)	(614)	(874)	(997)
Net change in cash	(122)	2	(119)	696
Free Cash Flow	847	141	467	1,390

Source: Company Data, PL Research

Key Financial Metrics

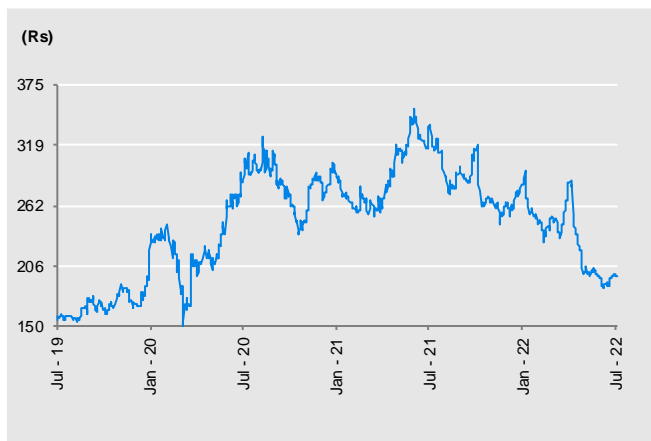
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	11.3	8.4	9.9	12.5
CEPS	14.6	12.3	14.7	18.0
BVPS	81.8	87.2	92.9	100.6
FCF	4.4	0.7	2.4	7.1
DPS	3.0	3.0	3.5	4.0
Return Ratio(%)				
RoCE	16.7	11.8	13.2	15.5
ROIC	15.9	10.4	11.3	14.0
RoE	14.6	10.0	11.0	12.9
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	86	89	78	78
Valuation(x)				
PER	18.2	24.3	20.6	16.4
P/B	2.5	2.3	2.2	2.0
P/CEPS	14.1	16.7	13.9	11.4
EV/EBITDA	11.4	13.8	11.4	9.1
EV/Sales	1.5	1.4	1.3	1.1
Dividend Yield (%)	1.5	1.5	1.7	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	7,278	6,281	5,075	8,628
YoY gr. (%)	0.4	10.1	7.7	16.5
Raw Material Expenses	4,641	3,755	3,311	5,535
Gross Profit	2,637	2,526	1,765	3,092
Margin (%)	36.2	40.2	34.8	35.8
EBITDA	880	674	(28)	1,127
YoY gr. (%)	(24.6)	12.1	(116.0)	(7.3)
Margin (%)	12.1	10.7	(0.6)	13.1
Depreciation / Depletion	177	184	197	247
EBIT	702	490	(225)	880
Margin (%)	9.7	7.8	(4.4)	10.2
Net Interest	12	14	12	17
Other Income	75	55	75	40
Profit before Tax	765	531	(162)	903
Margin (%)	10.5	8.4	(3.2)	10.5
Total Tax	201	135	(21)	235
Effective tax rate (%)	26.2	25.5	12.9	26.0
Profit after Tax	564	396	(142)	668
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	565	396	(142)	668
YoY gr. (%)	(30.5)	0.1	(320.3)	(18.8)
Margin (%)	7.8	6.3	(2.8)	7.7
Extra Ord. Income / (Exp)	-	-	-	6
Reported PAT	565	396	(142)	675
YoY gr. (%)	(31.9)	(13.3)	(274.8)	(18.1)
Margin (%)	7.8	6.3	(2.8)	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	565	396	(142)	675
Avg. Shares O/s (m)	195	195	195	195
EPS (Rs)	2.9	2.0	(0.7)	3.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	BUY	230	189
2	29-Jun-22	BUY	230	187
3	23-Apr-22	Hold	260	254
4	08-Apr-22	Hold	280	263
5	20-Jan-22	Hold	280	277
6	12-Jan-22	Accumulate	270	279
7	27-Dec-21	Accumulate	270	257
8	22-Jul-21	Hold	321	326

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,640	5,076
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	870	687
4	Godrej Agrovet	Accumulate	577	502
5	Insecticides India	Hold	680	881
6	P.I. Industries	BUY	3,340	2,581
7	Rallis India	BUY	230	189
8	Sharda Cropchem	BUY	750	619
9	Sumitomo Chemical India	BUY	510	423
10	UPL	BUY	1,010	644

PL's Recommendation Nomenclature (Absolute Performance)

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

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