

September 22, 2022

## Company Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	250		230	
Sales (Rs. m)	29,369	33,461	29,662	33,784
% Chng.	(1.0)	(1.0)		
EBITDA (Rs. m)	3,177	3,929	3,312	4,081
% Chng.	(4.1)	(3.7)		
EPS (Rs.)	9.4	11.9	9.9	12.5
% Chng.	(5.5)	(4.9)		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	26,039	29,369	33,461	37,672
EBITDA (Rs. m)	2,741	3,177	3,929	4,479
Margin (%)	10.5	10.8	11.7	11.9
PAT (Rs. m)	1,642	1,826	2,314	2,676
EPS (Rs.)	8.4	9.4	11.9	13.8
Gr. (%)	(25.1)	11.2	26.7	15.6
DPS (Rs.)	3.0	3.5	4.0	4.5
Yield (%)	1.3	1.6	1.8	2.0
RoE (%)	10.0	10.5	12.4	13.3
RoCE (%)	11.8	12.5	14.9	16.0
EV/Sales (x)	1.6	1.4	1.2	1.1
EV/EBITDA (x)	15.1	13.1	10.4	9.0
PE (x)	26.5	23.9	18.8	16.3
P/BV (x)	2.6	2.4	2.3	2.1

### Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.325 / Rs.183
Sensex / Nifty	59,120 / 17,630
Market Cap	Rs.44bn/ \$ 538m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.101.9m

### 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	0.3	(9.3)	(23.0)
Relative	(0.3)	(11.0)	(23.3)

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

### Quick Pointers:

- Reduced FY23/24 estimates by 4.9%/5.5% citing margin pressures in the near term.
- Exports in a better position, led by healthier demand and lower base of last year.

**We retain 'BUY' on Rallis India (RALI) with a target price of Rs250 (Rs230 earlier) based on 18x FY25 EPS even as we reduce our EPS estimates by 5.5% and 4.9% for FY23/24E on near term margin pressures due to high cost raw material inventory in 2Q23 despite 4-5% price hike in June'22.**

**RALI in their pre-quarterly conference call highlighted that (a) domestic crop care business likely to post subdued performance primarily led by tepid demand due to disproportionate rainfall resulting into lower pest infestation and miss in sprays; (b) exports at a better-off position led by improved demand scenario globally supported by better product and price mix, however have cautious outlook due to drought in US and European markets; (c) herbicides continues to outperform (to post double digit growth in 2Q) as compared to insecticides and fungicides category; (d) launched 3 new 9(3) molecules in 1HFY23 as against guidance of 4 product launches in FY23E, additionally launched 5 new 9(4) molecules in 1H'23; (e) crop nutrition business to post double digit revenue growth, aided by better product mix; (f) high cost inventory to exert pressure in near term, however remains confident to maintain absolute EBITDA led by recent price hikes. We expect revenue/PAT CAGR of 13%/18% over FY22-25E (vs 8%/3% over FY11-22). Retain 'BUY'.**

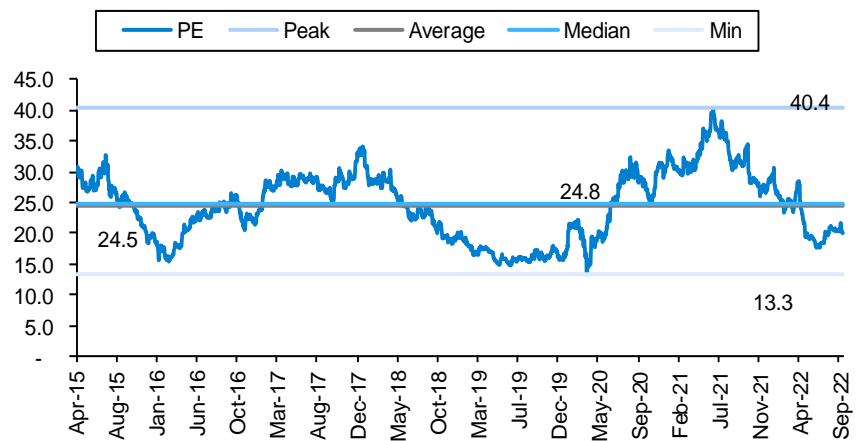
**Domestic crop care - High costs inventory in a falling cost scenario, remains a concern:** Late onset of monsoon (delayed by 15-20 days in June'22) this year has in-turn resulted into slower start to the kharif season this year. However, with gradual improvement in the rainfall (up 6% of LPA till 16<sup>th</sup> September'22) there is gradual pick up in sowing activities (down 1% YoY till with 101% of normal area completed till 16<sup>th</sup> September'22). Management expects subdued performance in the crop care segment on the back of a) lower demand of agrochemicals due to disproportionate rainfall; 2) lower pest infestation and 3) higher rainfalls (in certain regions) leading to miss in spraying activities. Management also indicated that high cost inventory amid falling RM cost scenario is likely to exert pressure on margins in the near term (despite company liquidating majority of high cost inventory during the quarter). While price hikes taken in the recent past (to the tune of 4-5%) across portfolio (in June'22) coupled with cost control measures are likely to support absolute EBITDA for FY23.

**Exports- Relatively in a better-off position:** RALI remained buoyant on the exports business primarily driven by a) enhanced focus on branded formulation segment in South-east Asia and African region; b) new customer additions in US and African region and c) new product registrations. Management indicated that

business in LATAM, US and European region are ahead till date. However, they maintained their cautious stance on exports outlook going forward, led by drought in US and European markets. Management remained confident to achieve 40% exports share to overall revenues by FY26. **We expect revenue growth of 12% YoY in 2QFY23E, primarily led by domestic and export growth of 7% YoY and 25% YoY respectively.**

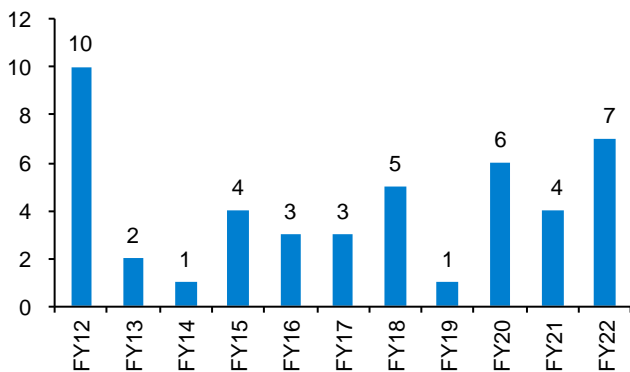
**Seeds – Muted quarter expected:** RALI stated that seeds business is likely to post subdued performance largely led by a) delayed monsoons impacting liquidation; b) lower paddy acreages till date down 9% YoY and c) expectation of higher sales return. Liquidation of inventories was seen in North India because of better rainfall. However, it remained slow in West and East India. While there has been delayed season in Southern India due to late onset of monsoons, the company remains hopeful of better performance from the region in the near term.

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



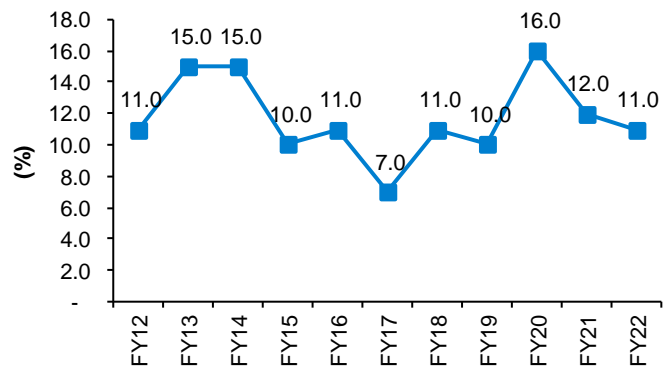
Source: Company, PL

**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	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>26,039</b>	<b>29,369</b>	<b>33,461</b>	<b>37,672</b>
YoY gr. (%)	7.2	12.8	13.9	12.6
Cost of Goods Sold	16,236	18,352	20,907	23,707
Gross Profit	9,804	29,369	33,461	37,672
Margin (%)	37.6	100.0	100.0	100.0
Employee Cost	2,391	2,654	2,920	3,212
Other Expenses	4,672	5,185	5,704	6,274
<b>EBITDA</b>	<b>2,741</b>	<b>3,177</b>	<b>3,929</b>	<b>4,479</b>
YoY gr. (%)	(15.1)	15.9	23.7	14.0
Margin (%)	10.5	10.8	11.7	11.9
Depreciation and Amortization	743	928	1,070	1,150
<b>EBIT</b>	<b>1,997</b>	<b>2,249</b>	<b>2,859</b>	<b>3,329</b>
Margin (%)	7.7	7.7	8.5	8.8
Net Interest	48	55	60	60
Other Income	275	280	294	309
<b>Profit Before Tax</b>	<b>2,224</b>	<b>2,474</b>	<b>3,093</b>	<b>3,577</b>
Margin (%)	8.5	8.4	9.2	9.5
Total Tax	582	648	780	901
Effective tax rate (%)	26.2	26.2	25.2	25.2
<b>Profit after tax</b>	<b>1,642</b>	<b>1,826</b>	<b>2,314</b>	<b>2,676</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,642</b>	<b>1,826</b>	<b>2,314</b>	<b>2,676</b>
YoY gr. (%)	(25.1)	11.2	26.7	15.6
Margin (%)	6.3	6.2	6.9	7.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,642</b>	<b>1,826</b>	<b>2,314</b>	<b>2,676</b>
YoY gr. (%)	(28.2)	11.2	26.7	15.6
Margin (%)	6.3	6.2	6.9	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,642	1,826	2,314	2,676
<b>Equity Shares O/s (m)</b>	<b>195</b>	<b>195</b>	<b>195</b>	<b>195</b>
<b>EPS (Rs)</b>	<b>8.4</b>	<b>9.4</b>	<b>11.9</b>	<b>13.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>9,875</b>	<b>12,375</b>	<b>13,375</b>	<b>14,375</b>
Tangibles	9,875	12,375	13,375	14,375
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,451</b>	<b>4,379</b>	<b>5,449</b>	<b>6,599</b>
Tangibles	3,451	4,379	5,449	6,599
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,424</b>	<b>7,996</b>	<b>7,926</b>	<b>7,776</b>
Tangibles	6,424	7,996	7,926	7,776
Intangibles	-	-	-	-
Capital Work In Progress	667	667	667	667
Goodwill	1,958	1,958	1,958	1,958
Non-Current Investments	32	32	32	32
Net Deferred tax assets	(213)	(213)	(213)	(213)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	2,087	2,087	2,087	2,087
Inventories	9,380	9,302	10,597	12,016
Trade receivables	4,459	5,030	5,730	6,452
Cash & Bank Balance	631	454	1,023	1,847
Other Current Assets	1,340	1,474	1,621	1,783
<b>Total Assets</b>	<b>28,580</b>	<b>30,776</b>	<b>33,614</b>	<b>36,828</b>
<b>Equity</b>				
Equity Share Capital	195	195	195	195
Other Equity	16,772	17,778	19,156	20,778
<b>Total Networkth</b>	<b>16,967</b>	<b>17,973</b>	<b>19,350</b>	<b>20,972</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	38	38	38	38
Provisions	806	806	806	806
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	542	542	542	542
Trade payables	7,525	8,045	9,165	10,392
Other current liabilities	2,489	3,160	3,500	3,864
<b>Total Equity &amp; Liabilities</b>	<b>28,580</b>	<b>30,776</b>	<b>33,614</b>	<b>36,828</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	2,224	2,474	3,093	3,577
Add. Depreciation	743	928	1,070	1,150
Add. Interest	48	55	60	60
Less Financial Other Income	275	280	294	309
Add. Other	80	(280)	(294)	(309)
Op. profit before WC changes	3,095	3,177	3,929	4,479
Net Changes-WC	(750)	388	(878)	(948)
Direct tax	(688)	(648)	(780)	(901)
<b>Net cash from Op. activities</b>	<b>1,658</b>	<b>2,917</b>	<b>2,272</b>	<b>2,629</b>
Capital expenditures	(1,773)	(2,500)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	731	280	294	309
<b>Net Cash from Inv. activities</b>	<b>(1,042)</b>	<b>(2,220)</b>	<b>(706)</b>	<b>(691)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(13)	(55)	(60)	(60)
Dividend paid	(585)	(819)	(937)	(1,054)
Interest paid	-	-	-	-
Others	(17)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(614)</b>	<b>(874)</b>	<b>(997)</b>	<b>(1,114)</b>
<b>Net change in cash</b>	<b>2</b>	<b>(177)</b>	<b>569</b>	<b>824</b>
Free Cash Flow	141	417	1,272	1,629

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	8.4	9.4	11.9	13.8
CEPS	12.3	14.2	17.4	19.7
BVPS	87.2	92.4	99.5	107.8
FCF	0.7	2.1	6.5	8.4
DPS	3.0	3.5	4.0	4.5
<b>Return Ratio(%)</b>				
RoCE	11.8	12.5	14.9	16.0
ROIC	10.4	10.7	13.3	14.8
RoE	10.0	10.5	12.4	13.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	89	78	78	78
<b>Valuation(x)</b>				
PER	26.5	23.9	18.8	16.3
P/B	2.6	2.4	2.3	2.1
P/CEPS	18.3	15.8	12.9	11.4
EV/EBITDA	15.1	13.1	10.4	9.0
EV/Sales	1.6	1.4	1.2	1.1
Dividend Yield (%)	1.3	1.6	1.8	2.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>7,278</b>	<b>6,281</b>	<b>5,075</b>	<b>8,628</b>
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
<b>EBITDA</b>	<b>880</b>	<b>674</b>	<b>(28)</b>	<b>1,127</b>
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
<b>EBIT</b>	<b>702</b>	<b>490</b>	<b>(225)</b>	<b>880</b>
Margin (%)	9.7	7.8	(4.4)	10.2
Net Interest	12	14	12	17
Other Income	75	55	75	40
<b>Profit before Tax</b>	<b>765</b>	<b>531</b>	<b>(162)</b>	<b>903</b>
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
<b>Profit after Tax</b>	<b>564</b>	<b>396</b>	<b>(142)</b>	<b>668</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>565</b>	<b>396</b>	<b>(142)</b>	<b>668</b>
YoY gr. (%)	(30.5)	0.1	(320.3)	(18.8)
Margin (%)	7.8	6.3	(2.8)	7.7
Extra Ord. Income / (Exp)	-	-	-	6
<b>Reported PAT</b>	<b>565</b>	<b>396</b>	<b>(142)</b>	<b>675</b>
YoY gr. (%)	(31.9)	(13.3)	(274.8)	(18.1)
Margin (%)	7.8	6.3	(2.8)	7.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>565</b>	<b>396</b>	<b>(142)</b>	<b>675</b>
Avg. Shares O/s (m)	195	195	195	195
<b>EPS (Rs)</b>	<b>2.9</b>	<b>2.0</b>	<b>(0.7)</b>	<b>3.4</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	21-Jul-22	BUY	230	205
2	04-Jul-22	BUY	230	189
3	29-Jun-22	BUY	230	187
4	23-Apr-22	Hold	260	254
5	08-Apr-22	Hold	280	263
6	20-Jan-22	Hold	280	277
7	12-Jan-22	Accumulate	270	279
8	27-Dec-21	Accumulate	270	257

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,650	5,275
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	850	695
4	Godrej Agrovet	Accumulate	570	505
5	Insecticides India	Hold	920	1,008
6	P.I. Industries	BUY	3,450	3,028
7	Rallis India	BUY	230	205
8	Sharda Cropchem	BUY	740	564
9	Sumitomo Chemical India	BUY	510	475
10	UPL	BUY	1,020	767

**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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