

## Steady progress despite challenging scenario...

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

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

**Q2FY23 Results:** Numbers were in line with our estimates, led by an increase in exports and higher input price inflation.

- Revenues increased 30.7% to ₹ 951 crore, driven by 64% YoY growth from international business. Domestic crop care increased 19% YoY while seed segment was up 12%
- Gross margins contracted 192 bps YoY to ~34.3%
- EBITDA increased 33.7% YoY to ₹ 118 crore. Crop care segment EBITDA increased 118% YoY to ₹ 139 crore while seeds segment EBITDA declined 5% to negative ₹ 21 crore
- Adjusted PAT increased 25.8% YoY to ₹ 71 crore

**What should investors do?** The stock appreciated at 11% CAGR in last three years.

- We maintain **HOLD** with a neutral stance as we await progress on the margin front and capex

**Target Price and Valuation:** We value Rallis India at 20x FY24E EPS of ₹ 12.4 to arrive at a revised target price of ₹ 250 per share (earlier ₹ 200 per share).

**Key triggers for future price performance:**

- Lower pricing pressure for key molecules in the international market along with better volume growth visibility
- Backward integration of few technicals could help translate into improvement in gross margins
- Good growth momentum in the crop nutrition segment may lead to decent gross margins ahead

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

- Trigger for Sumitomo Chemical's future revenue growth would be increasing CRAMS opportunity from SCC Japan and Nufarm
- BUY with a target price of ₹ 565



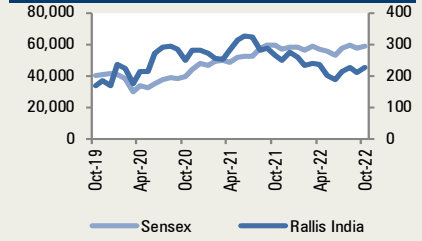
### Particulars

Particular	Amount
Market cap (₹ Crore)	4,420
FY22 Total Debt (₹ Crore)	93
FY22 Cash & Inv (₹ Crore)	272
EV (₹ Crore)	4,241
52 Week H/L	299/182
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

### Shareholding pattern

in %	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.1	50.1	50.1	50.1
DII	16.4	16.1	15.2	15.2
FII	6.0	6.1	6.0	6.0
Others	27.5	27.8	28.7	28.7

### Price Chart



### Recent Event & Key risks

- International business witnessed strong growth
- Key Risk:** (i) Slowdown in domestic crop care to impact earnings (ii) Better than expected price increase

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	2,251.8	2,429.4	2,603.9	9.4%	3,020.4	3,444.6	15.0%
EBITDA	259.4	322.9	274.1	0.8%	292.9	401.3	21.0%
EBITDA Margins (%)	11.5%	13.3%	10.5%		9.7%	11.6%	
Adj. PAT	176.0	221.5	164.2	-1.1%	172.5	241.7	21.3%
Adj. EPS (₹)	9.0	11.4	8.4		8.9	12.4	
EV/EBITDA	16.0x	12.9x	15.5x		15.6x	11.1x	
P/E	25.1x	19.9x	26.9x		25.6x	18.3x	
ROE (%)	12.5	13.9	9.7		9.5	12.1	
ROCE (%)	15.5	18.0	12.7		11.6	15.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q2FY23 Results: Strong growth from international market leads overall performance

- **Domestic business:** Revenues were up 19% YoY to ₹ 636 crore, driven by decent sales from domestic crop care. The revenue from crop care was up 19% YoY to ₹ 608 crore, led by better realisation growth while revenue from seeds increased 12% YoY to ₹ 28 crore
- **International business:** Strong volumes along with realisation growth in key molecules led to a beat in international crop care business revenues. Volumes and realisations grew during the quarter. Revenues were at ₹ 315.2 crore (up 64% YoY)
- **Operational performance:** Owing to passing on of input inflation in the crop care segment, OPM remained flat YoY at 15.1% while seeds business recorded losses that were almost same as last years' level

### Q2FY23 Earnings Conference Call highlights

#### Industry Overview:

- Q2 was a challenging period for the domestic business as adverse monsoon pattern impacted on ground activities
- Overall monsoon during the season remained 7% in excess of normal vs. -1% YoY

#### Domestic Business:

- The domestic business operated in a challenging environment. It was impacted by monsoon leading to lower activity, in turn, leading to lower volume growth. It was affected by erratic monsoons and lower pesticides spray due to excess rains, etc
- On the domestic front, the company was able to make margins through focus on mix and pricing. Herbicide performed well in North India (some products registered double digit growth). Sales of fungicide and insecticide performed lower than management expectation. Volume growth in the domestic market was in single digits
- Two 9(3) products (specialty) and four 9(4) products (generics) were launched during the year
- The company is working toward expanding distributions and selling products in e-commerce models
- In the seeds segment, the company has seen a sharp increase in volumes YoY. Total 1.7 lakhs packets were sold vs. 20,000 packets in the previous year. The growth was driven by newly launched products and positive sentiments of public for products in market. The company is expecting sales to double in the next Kharif season. Further, the vegetable seeds business is not performing as per expectations

#### International Business:

- A sharp growth in the international business was driven by both volume and value. Metribuzin sales have shown early signs of a pick-up
- The company continues to focus on branded sales in South East Asia and Africa. It is entering into business engagements in the US and Turkey

#### Contract Manufacturing Business:

- The contract manufacturing business is expected to take two to three years to reach meaningful sales
- Rallis is engaged with new customers and not existing customers for the CRAMS business. The company is expecting CRAMS revenue to get commercialised in FY24 provided everything works out well

**Crop Nutrition Business:**

- Crop nutrition business is area of focus for the company. Rallis has grown 25-30% in the last two years. The company has clocked ₹ 145 crore in the last year. Margins are higher than overall margins of the company
- Crop nutrition business contributes towards biological products, soil health products, water soluble crop nutrition products and micro nutrients. Rallis will add few products by end of this year or in next Kharif season

**Management on Raw Material:**

- The company is reducing dependence on China for meeting raw material requirements
- Rallis has made good progress in the area. It procures 100% raw material domestically for two products. For two important intermediates, it procures 20% domestically and is targeting 80% of other intermediate by year end

**Management on capex:**

- Overall capex for the year was announce ₹ 250 crore of which ₹ 100 crore has been spent during H1

**Management on Metribuzin and Pendimethalin:**

- Sales of Metribuzin have grown 60% YoY while sales for Pendimethalin have grown 20% YoY.
- The management said that with minimal investment it can have enough headroom for both products
- For Pendimethalin, the company has entered into a long term supply agreement with supply. Currently, suppliers supply 15-20% of required raw material, which will trend upwards to 70-80%. For Metribuzin, the company is dependent on imports

**Management on high cost inventory:**

- The management said there is no high cost inventory left on the balance sheet. Rallis is in a better position today compared to three months back

**Management on gross margin levels:**

- High cost inventory, competitive market and the company being unable to pass on the whole inflation price led to gross margins under pressure in H1
- Expected margins – The company is still facing pricing pressure in Brazil and South East Asia for products it sells while it enjoys better pricing flexibility in countries like the US and Europe. Expected margins will be dependent on prices Rallis is able to charge in the market. Further, raw material and freight cost are getting trimmed down so margins can improve in the US/Europe regions

**Management on forex currency:**

- The company is a net exporter. Hence, dollar getting strong is not a big concern for the company

**Management on receivables and interim debt**

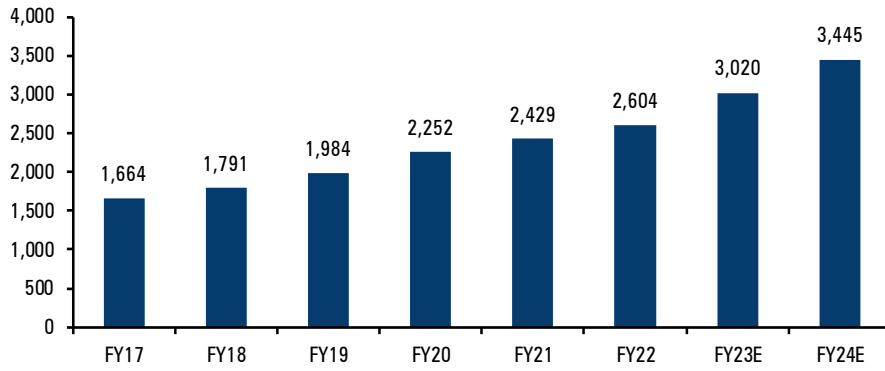
- In Q3, the management will focus on receivable inventory and to optimise inventory levels
- The management will add further interim debt of ~₹ 50-100 crore. They believe this will not affect operating cash flows

**Management on capacity utilisation:**

- Acephate plant – 100%
- Pendimethalin/ Metribuzin Plant - ~80-90%
- Hexa plant – Slightly lower due to Vietnam and China market
- CRMAS – Good utilisation
- PEKK – was shut for few years and will be started in Q4FY23

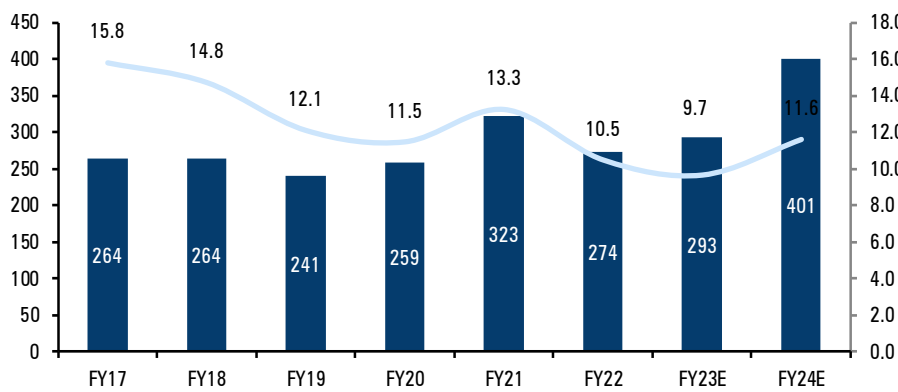
## Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



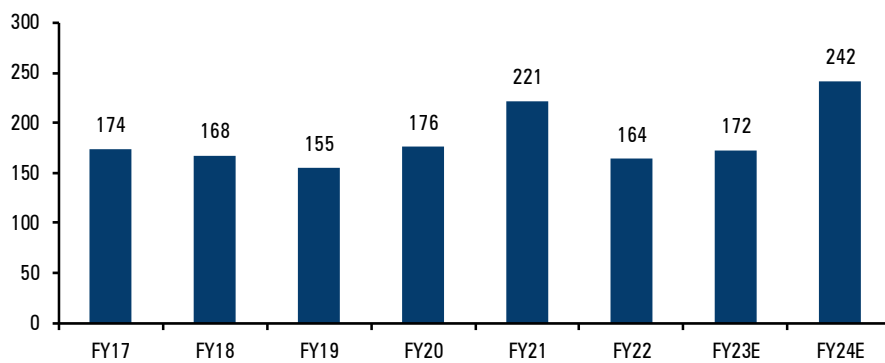
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
<b>Total Operating Income</b>	<b>2,429.4</b>	<b>2,603.9</b>	<b>3,020.4</b>	<b>3,444.6</b>	
Growth (%)	7.9	7.2	16.0	14.0	
Raw Material Expenses	1,475.2	1,623.6	1,902.8	2,135.6	
<b>Gross Profit</b>	<b>954.2</b>	<b>980.4</b>	<b>1,117.5</b>	<b>1,308.9</b>	
Employee Cost	216.0	239.1	259.8	289.3	
Other Operating Expenses	415.3	467.2	564.9	618.3	
<b>EBITDA</b>	<b>322.9</b>	<b>274.1</b>	<b>292.9</b>	<b>401.3</b>	
Growth (%)	24.5	-15.1	6.9	37.0	
Other Income	40.5	27.5	31.7	34.4	
<b>EBITDA, including OI</b>	<b>363.3</b>	<b>301.5</b>	<b>324.6</b>	<b>435.7</b>	
Depreciation	64.1	74.3	84.3	100.2	
Net Interest Exp.	5.2	4.8	10.3	13.3	
Other exceptional items	9.5	0.0	0.0	0.0	
<b>PBT</b>	<b>303.5</b>	<b>222.4</b>	<b>230.0</b>	<b>322.3</b>	
Total Tax	74.9	58.2	57.5	80.6	
Tax Rate	24.7%	26.2%	25.0%	25.0%	
<b>PAT</b>	<b>228.6</b>	<b>164.2</b>	<b>172.5</b>	<b>241.7</b>	
Adj.PAT after Minority interest	221.5	164.2	172.5	241.7	
Adj. EPS (₹)	11.4	8.4	8.9	12.4	
Shares Outstanding	19.5	19.5	19.5	19.5	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
<b>PBT &amp; Extraordinary</b>	<b>303.5</b>	<b>222.4</b>	<b>230.0</b>	<b>322.3</b>	
Depreciation	64.1	74.3	84.3	100.2	
After other adjustments					
(Inc) / Dec in Working Capital	-60.2	-74.9	-317.6	-26.7	
Taxes	-74.6	-68.8	-57.5	-80.6	
Others	-16.0	12.8	10.3	13.3	
<b>CF from operating activities</b>	<b>216.8</b>	<b>165.8</b>	<b>-50.4</b>	<b>328.4</b>	
Purchase of Fixed Assets	-168.5	-185.0	-200.0	-150.0	
Others	6.9	80.9	108.7	0.0	
<b>CF from investing activities</b>	<b>-161.6</b>	<b>-104.2</b>	<b>-91.3</b>	<b>-150.0</b>	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	
Borrowings (Net)	0.4	16.2	170.0	-70.0	
Others	-67.8	-77.7	-68.7	-71.6	
<b>CF from financing activities</b>	<b>-67.4</b>	<b>-61.5</b>	<b>101.3</b>	<b>-141.6</b>	
Net cash flow	-12.2	0.2	-40.4	36.8	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	
Opening Cash	48.7	55.1	63.2	22.8	
<b>Closing Cash</b>	<b>55.1</b>	<b>63.2</b>	<b>22.8</b>	<b>59.6</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
Year end March	FY21	FY22	FY23E	FY24E	
<b>Liabilities</b>					
Share Capital	19.5	19.5	19.5	19.5	
Reserves	1,571.4	1,677.2	1,791.3	1,974.7	
<b>Total Shareholders Funds</b>	<b>1,590.8</b>	<b>1,696.7</b>	<b>1,810.8</b>	<b>1,994.1</b>	
Minority Interest	0.7	0.0	0.0	0.0	
Long Term Borrowings	29.3	25.4	145.4	105.4	
Net Deferred Tax liability	30.5	24.2	24.2	24.2	
Other long term liabilities	0.1	0.1	10.1	11.6	
Long term provisions	26.9	37.9	30.6	34.8	
<b>Current Liabilities and Provisions</b>					
Short term borrowings	42.5	67.3	117.3	87.3	
Trade Payables	596.1	752.5	868.9	990.9	
Other Current Liabilities	257.5	246.1	285.4	325.5	
Short Term Provisions	14.3	7.9	9.2	10.5	
Total Current Liabilities	910.4	1,073.8	1,280.8	1,414.2	
<b>Total Liabilities</b>	<b>2,588.6</b>	<b>2,858.0</b>	<b>3,301.9</b>	<b>3,584.4</b>	
<b>Assets</b>					
Net Block	435.2	574.9	746.3	796.1	
Capital Work in Progress	105.7	55.7	0.0	0.0	
Intangible assets under devl.	58.8	74.3	74.3	74.3	
Goodwill on Consolidation	195.8	195.8	195.8	195.8	
Non-current investments	3.2	3.2	3.2	3.2	
Deferred tax assets	88.0	93.0	93.0	93.0	
Long term loans and advances	10.9	19.2	12.5	14.3	
Other Non Current Assets	35.7	47.8	197.3	225.0	
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	280.3	208.7	100.0	100.0	
Inventories	763.2	938.0	1,158.5	1,226.8	
Sundry Debtors	406.3	445.9	537.9	613.4	
Cash and Bank	55.1	63.2	22.8	59.6	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current assets	150.5	138.1	160.2	182.7	
Current Assets	1,655.4	1,794.0	1,979.4	2,182.6	
<b>Total Assets</b>	<b>2,588.6</b>	<b>2,858.0</b>	<b>3,301.9</b>	<b>3,584.4</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adj. EPS	11.4	8.4	8.9	12.4
Adj. Cash EPS	14.7	12.3	13.2	17.6
BV	81.8	87.2	93.1	102.5
DPS	3.0	3.0	3.0	3.0
<b>Operating Ratios (%)</b>				
Gross Margin (%)	39.3	37.6	37.0	38.0
EBITDA Margin (%)	13.3	10.5	9.7	11.6
PAT Margin (%)	9.1	6.3	5.7	7.0
Debtor Days	61	63	65	65
Inventory Days	115	131	140	130
Creditor Days	90	105	105	105
Cash Conversion Cycle	86	89	100	90
<b>Return Ratios (%)</b>				
Return on Assets (%)	8.6	5.7	5.2	6.7
RoCE (%)	18.0	12.7	11.6	15.3
Core RoC (%)	19.5	13.2	10.7	14.9
RoE (%)	13.9	9.7	9.5	12.1
<b>Solvency Ratios</b>				
Total Debt / Equity	0.0	0.1	0.1	0.1
Interest Coverage	57.4	47.4	23.2	25.3
Current Ratio	1.8	1.7	1.5	1.5
Quick Ratio	1.0	0.8	0.6	0.7
<b>Valuation Ratios (x)</b>				
EV/EBITDA	12.9	15.5	15.6	11.1
P/E	19.9	26.9	25.6	18.3
P/B	2.8	2.6	2.4	2.2
EV/Sales	1.7	1.6	1.5	1.3

Source: Company, ICICI Direct Research

**Exhibit 8: ICICI Direct coverage universe (Chemicals)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2520	2,735	Buy	74,699	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2987	3,710	Buy	45,324	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	768	885	Hold	27,822	36.1	25.1	31.6	22.7	32.7	25.9	24.0	19.6	16.0	12.0	13.0	13.9	13.3	13.5	14.8
Tata Chemical	1185	1,370	Buy	30,186	47.5	63.6	73.0	24.3	18.2	15.8	14.7	10.9	8.5	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2016	2,320	Hold	20,717	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	505	565	Buy	25,214	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	4400	4,570	Hold	21,738	52.3	64.4	91.4	84.2	68.3	48.1	61.2	45.5	31.3	17.8	18.0	20.1	14.0	15.2	18.4
Rallis India	227	250	Hold	4,420	8.4	8.9	12.4	26.9	25.6	18.3	15.5	15.6	11.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	416	515	Hold	2,882	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1513	1,645	Buy	3,773	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1867	2,215	Buy	3,660	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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