

October 21, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	250		250	
Sales (Rs. m)	35,359	40,030	33,461	37,672
% Chng.	5.7	6.3		
EBITDA (Rs. m)	4,022	4,706	3,929	4,479
% Chng.	2.4	5.1		
EPS (Rs.)	11.7	13.8	11.9	13.8
% Chng.	(1.9)	0.2		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	26,039	31,140	35,359	40,030
EBITDA (Rs. m)	2,741	3,199	4,022	4,706
Margin (%)	10.5	10.3	11.4	11.8
PAT (Rs. m)	1,642	1,707	2,269	2,682
EPS (Rs.)	8.4	8.8	11.7	13.8
Gr. (%)	(25.1)	4.0	32.9	18.2
DPS (Rs.)	3.0	3.5	4.0	4.5
Yield (%)	1.3	1.5	1.8	2.0
RoE (%)	10.0	9.8	12.3	13.4
RoCE (%)	11.8	12.4	15.2	16.8
EV/Sales (x)	1.6	1.4	1.2	1.0
EV/EBITDA (x)	15.3	13.3	10.4	8.7
PE (x)	26.8	25.8	19.4	16.4
P/BV (x)	2.6	2.5	2.3	2.1

### Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.299 / Rs.183
Sensex / Nifty	59,203 / 17,564
Market Cap	Rs.44bn/ \$ 532m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.91.87m

### Shareholding Pattern (%)

Promoter's	50.09
Foreign	6.01
Domestic Institution	15.27
Public & Others	28.63
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.7	(19.2)	(19.9)
Relative	1.6	(22.2)	(17.1)

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## Decent show in challenging times

### Quick Pointers:

- Domestic/exports business grew 18%/67% YoY in 2QFY23.
- Seeds business grew by 12% YoY largely led by better liquidation of cotton hybrids.

**Rallis India (RALI) 2QFY23 results were ahead of our/cons expectations primarily led by superior revenue growth across business segments. Gross margins contraction of 190bps YoY was largely led by high cost inventory coupled with inability to fully pass on the inflated cost. Key highlights are: (a) domestic revenue grew 18% YoY largely led by better realizations ; while overall crop care segment was up 31% YoY; (b) export revenues were up 67% YoY led by both prices and volumes; (c) seeds revenue were up 12% YoY;Rs120mn/Rs250mn provisions included in 2QFY23/1HFY23 respectively; (d)gross margins continues to be under pressure down 190bps YoY;while lower opex restricted EBITDA margins expansion by 30bps YoY to 12.4%; (e) launched 2/3 new products under 9(3) and 9(4) respectively in 1HFY23 and (f) CRAMS gaining traction; PEKK to revive by end of FY23.**

**Going forward, management remained hopeful on the upcoming rabi season backed by better agronomic situation in the domestic markets. However, they remained cautious on the realizations going forward 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 trim our EPS estimates by 7%/2% for FY23/24E citing margin pressure. We expect RALI to clock revenue/PAT CAGR of 15%/18% over FY22-FY25E, led by domestic market share gain and export ramp-up. Maintain BUY rating on the stock with unchanged TP of Rs250 based on 18x FY25 EPS.**

**Better product and price mix drives revenue growth:** Consolidated revenues stood at Rs9.5bn up 31% YoY (PLe Rs8.02bn) primarily driven by growth in Price/volumes. Domestic/exports revenues were up 18%/67% YoY respectively. While the overall crop care segment was up by 31% YoY. Seeds revenues were up 12% YoY to Rs286mn. Despite taking price hikes in the range of 4-5% across portfolio in crop protection business, higher provision of seeds (Rs120mn in 2QFY23; 1HFY23 of Rs250mn) coupled with lower liquidation and crop shifts has resulted into a gross margins contraction of 190bps YoY to 34.3%. Crop care EBITDA margin declined by 30bps YoY to 15.1%, while seeds segment reported margin loss at Rs210mn as against Rs200mn in the same period last year. Other income dipped by 72% YoY to Rs21mn led by a) lower export incentives and b) lower yield on liquid investments. Adjusted PAT came at Rs710mn (PLe Rs514mn) up 26% YoY.

## Other key highlights

- **Domestic business:** Domestic business grew by 18% largely led by pricing growth, while volume growth was low single-digit. RALI witnessed double digit growth in herbicides, while subdued demand for fungicide and insecticide segment led by uneven distribution of rainfall resulting into lower acreages and pest infestation. RALI launched two new 9(3) products 1) Clasto (Pyrifluquinazon), an insecticide for whitefly on cotton crop and 2) fungicide for paddy blast disease. It has also launched 3 new 9(4) products 1) Clue (Pymetrozine) for Paddy BPH, 2) Onto (Quinalphos) broad spectrum insecticide for multiple crops, and 3) Castello (Difenoconazole) fungicide for grapes, F&V.
- **Exports business:** Exports business grew by 67% YoY in 2QFY23 led by both volume & value. Volume improvement was led by higher demand for Acephate, Pendimethalin, and Kresoxim methyl. Demand for Metribuzin has started to scale-up from 2QFY23 onwards; however, the prices continues to remain under pressure. Growth for Pendimethalin has been strong and have witnessed 20% YoY growth 1HFY23, while some softness in demand is expected in 2HFY23. Growth in Metribuzin has been strong recording a growth of 60% YoY in 1HFY23. Increasing the sales of branded formulations (in southeast Asia & Africa) will be a key focus area. Company has filed several applications or dozier registrations in Asia & engaging in business development discussions in US & Turkey.
- **Exports to contribute 40% of overall revenues by FY25e:** RALI intends to achieve 40% revenues contribution from exports by FY25e from 32-34% 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 2QFY23, RALI received registrations for its Metribuzin formulated product in Brazilian market; Also got registration for Acephate formulation product which is expected to be launched this year. Metribuzin / pendimethalin recorded growth of 60%/20% YoY in 1HFY23.
- **CRAMS business:** In CRAMS business PEKK shipments are expected to commence from Q4FY23. It will take 2-3 years to contribute meaningfully to the topline. The company bagged two new small contracts during 4QFY22 for which supplies will start in FY24 and it will start to scale-up in 2HFY24. These contracts are from new clients. With regards to PEKK, after a halt of two years, the company will start supplying it from 4QFY23 onwards.
- **Seeds & Biologicals business:** Seeds revenues were up 12% YoY during 2QFY23 largely led by better liquidation of its cotton crop hybrid (Diggaz). Sales of Diggaz are expected to double in next kharif season. Management mentioned that major placement for the seeds business happens in kharif season and indicated muted business from seeds segment for the rest of the year & higher provision may be taken during subsequent quarters.
- **Crop Nutrition business:** In FY22, company recorded top-line of INR1.5mn in crop nutrition business. It grew by 30% YoY in 1HFY23 and is expected to grow at a CAGR of 20% over the next few years.

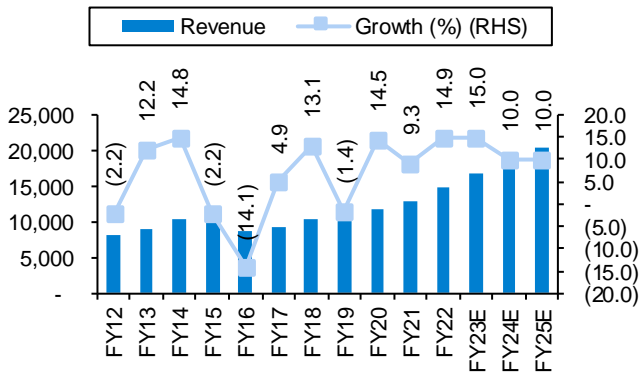
- Working Capital:** RALI's working capital requirement rose significantly during the quarter led by slower collection in both domestic and export markets. Receivable days increased to 90 days from 75 days in 2QFY22. This was largely on account of: 1) moderation in payment scheme in domestic market, 2) no discounting of receivable for an international customer, and 3) higher exposure to Brazil and South East Asia. The company does not expect a further stretch in collection cycle for the 2HFY23. While, they have increased their short term borrowings to fund the working capital requirement for the 2H'23.
- Capex Guidance:** RALI has guided for Rs2.5bn of capex in FY23E (already spent Rs1bn till 1HFY23). MPP at Dahej is delayed and is expected to be commissioned during this financial year; however, revenue contribution from this plant would be from FY24. Debt is expected to increase by 0.5-1bn as compared to previous year.

**Exhibit 1: 2QFY23 Result Overview (Rs mn)**

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)	FY23E	FY22	YoY gr. (%)
<b>Revenues</b>	<b>9,512</b>	<b>7,278</b>	<b>30.7</b>	<b>8,628</b>	<b>10.2</b>	<b>18,140</b>	<b>14,683</b>	<b>23.5</b>	<b>31,140</b>	<b>26,039</b>	<b>19.6</b>
Raw material	6,249	4,641	34.6	5,535	12.9	11,784	9,170	28.5	19,939	16,236	22.8
Staff costs	645	618	4.3	660	(2.2)	1,305	1,217	7.3	2,631	2,391	10.0
Others	1,442	1,139	26.6	1,306	10.4	2,748	2,201	24.8	5,372	4,672	15.0
Total expenditure	8,336	6,398	30.3	7,501	11.1	15,837	12,588	25.8	27,941	23,299	19.9
<b>EBITDA</b>	<b>1,176</b>	<b>880</b>	<b>33.7</b>	<b>1,127</b>	<b>NA</b>	<b>2,303</b>	<b>2,095</b>	<b>9.9</b>	<b>3,199</b>	<b>2,741</b>	<b>16.7</b>
Depreciation	220	177	24.2	247	(10.7)	467	362	28.9	965	743	29.9
<b>EBIT</b>	<b>956</b>	<b>702</b>	<b>36.1</b>	<b>880</b>	<b>NA</b>	<b>1,836</b>	<b>1,733</b>	<b>5.9</b>	<b>2,233</b>	<b>1,997</b>	<b>11.8</b>
Interest	23	12	82.9	17	34.7	39	22	81.5	85	48	77.5
Add: Other income	21	75	(72.2)	40	(48.3)	61	145	(57.9)	165	275	(40.0)
<b>Profit Before Tax</b>	<b>954</b>	<b>765</b>	<b>24.7</b>	<b>903</b>	<b>NA</b>	<b>1,858</b>	<b>1,856</b>	<b>0.1</b>	<b>2,313</b>	<b>2,224</b>	<b>4.0</b>
Less: Provision for Tax	244	201	21.5	235	NA	479	468	2.2	606	582	4.1
Less: Minority Interest	-	(0)	NA	-	NA	-	(0)	NA	-	-	-
<b>Adjusted Profit</b>	<b>710</b>	<b>565</b>	<b>25.8</b>	<b>668</b>	<b>NA</b>	<b>1,379</b>	<b>1,388</b>	<b>(0.7)</b>	<b>1,707</b>	<b>1,642</b>	<b>4.0</b>
Add: Exceptional items (net of tax)	-	-	NA	6	NA	6	-	NA	-	-	-
<b>Reported Profit</b>	<b>710</b>	<b>565</b>	<b>25.8</b>	<b>675</b>	<b>NA</b>	<b>1,385</b>	<b>1,388</b>	<b>(0.2)</b>	<b>1,707</b>	<b>1,642</b>	<b>4.0</b>
No. of shares (mn)	195	195		195		195	195		195	195	
<b>Adjusted Diluted EPS</b>	<b>3.7</b>	<b>2.9</b>	<b>25.8</b>	<b>3.4</b>	<b>NA</b>	<b>7.1</b>	<b>7.1</b>	<b>(0.7)</b>	<b>8.8</b>	<b>8.4</b>	<b>4.0</b>
<b>As % of net revenues</b>											
Raw material	65.7	63.8		64.2		65.0	62.5		64.0	62.4	
Staff expenses	6.8	8.5		7.6		7.2	8.3		8.4	9.2	
Other expenses	15.2	15.6		15.1		15.1	15.0		17.3	17.9	
EBITDA	12.4	12.1		13.1		12.7	14.3		10.3	10.5	
Net profit	7.5	7.8		7.7		7.6	9.5		5.5	6.3	

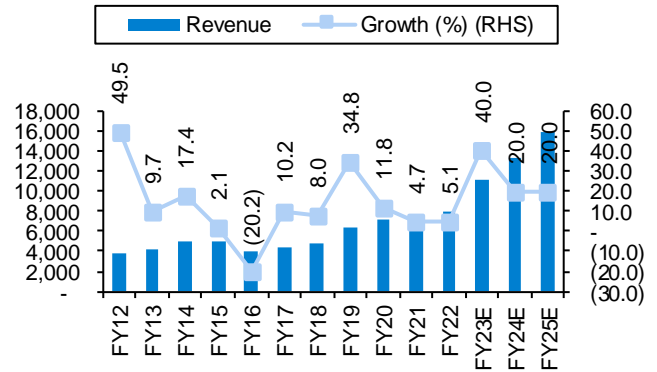
Source: Company, PL

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



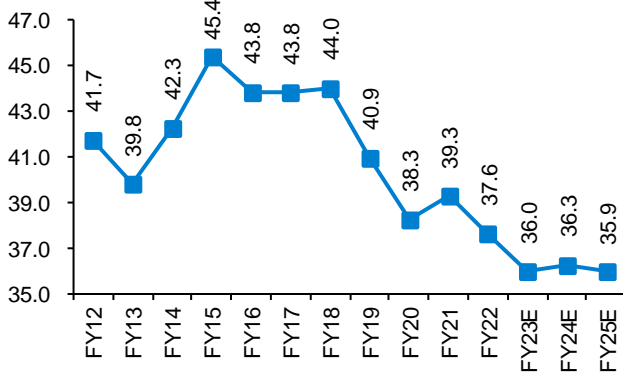
Source: Company, PL

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



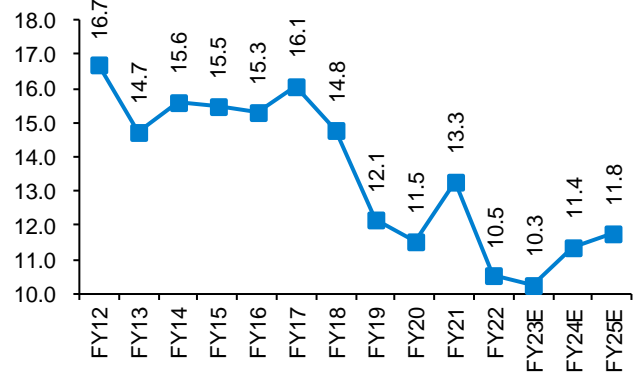
Source: Company, PL

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



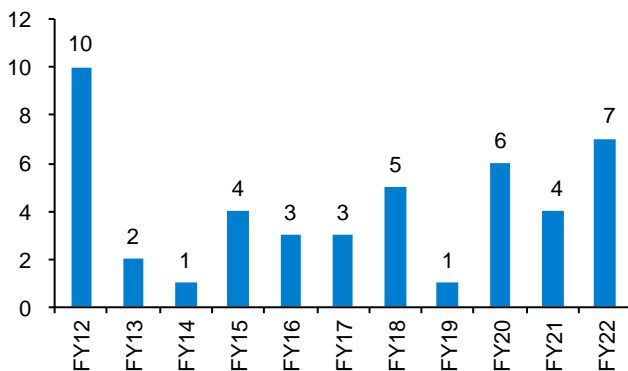
Source: Company, PL

**Exhibit 5: ..resulting into subdued EBITDA margin (%)**



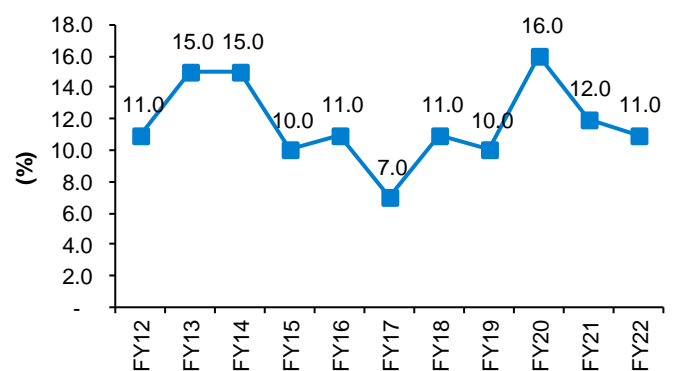
Source: Company, PL

**Exhibit 6: Consistently banging on new products**



Source: Company, PL

**Exhibit 7: ITI momentum gradually picking up**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>26,039</b>	<b>31,140</b>	<b>35,359</b>	<b>40,030</b>
YoY gr. (%)	7.2	19.6	13.5	13.2
Cost of Goods Sold	16,236	19,939	22,533	25,640
Gross Profit	9,804	31,140	35,359	40,030
Margin (%)	37.6	100.0	100.0	100.0
Employee Cost	2,391	2,631	2,894	3,183
Other Expenses	4,672	5,372	5,910	6,501
<b>EBITDA</b>	<b>2,741</b>	<b>3,199</b>	<b>4,022</b>	<b>4,706</b>
YoY gr. (%)	(15.1)	16.7	25.8	17.0
Margin (%)	10.5	10.3	11.4	11.8
Depreciation and Amortization	743	965	1,110	1,251
<b>EBIT</b>	<b>1,997</b>	<b>2,233</b>	<b>2,912</b>	<b>3,456</b>
Margin (%)	7.7	7.2	8.2	8.6
Net Interest	48	85	60	60
Other Income	275	165	181	190
<b>Profit Before Tax</b>	<b>2,224</b>	<b>2,313</b>	<b>3,033</b>	<b>3,586</b>
Margin (%)	8.5	7.4	8.6	9.0
Total Tax	582	606	764	904
Effective tax rate (%)	26.2	26.2	25.2	25.2
<b>Profit after tax</b>	<b>1,642</b>	<b>1,707</b>	<b>2,269</b>	<b>2,682</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,642</b>	<b>1,707</b>	<b>2,269</b>	<b>2,682</b>
YoY gr. (%)	(25.1)	4.0	32.9	18.2
Margin (%)	6.3	5.5	6.4	6.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,642</b>	<b>1,707</b>	<b>2,269</b>	<b>2,682</b>
YoY gr. (%)	(28.2)	4.0	32.9	18.2
Margin (%)	6.3	5.5	6.4	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,642	1,707	2,269	2,682
<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>8.8</b>	<b>11.7</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>4,416</b>	<b>5,526</b>	<b>6,777</b>
Tangibles	3,451	4,416	5,526	6,777
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,424</b>	<b>7,959</b>	<b>7,849</b>	<b>7,598</b>
Tangibles	6,424	7,959	7,849	7,598
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	10,106	11,421	12,996
Trade receivables	4,459	5,333	6,055	6,855
Cash & Bank Balance	631	16	561	1,406
Other Current Assets	1,340	1,474	1,621	1,783
<b>Total Assets</b>	<b>28,580</b>	<b>31,409</b>	<b>34,224</b>	<b>37,591</b>
<b>Equity</b>				
Equity Share Capital	195	195	195	195
Other Equity	16,772	17,660	18,992	20,621
<b>Total Networkth</b>	<b>16,967</b>	<b>17,854</b>	<b>19,187</b>	<b>20,815</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	8,740	9,878	11,239
Other current liabilities	2,489	3,216	3,561	3,938
<b>Total Equity &amp; Liabilities</b>	<b>28,580</b>	<b>31,409</b>	<b>34,224</b>	<b>37,591</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	2,224	2,313	3,033	3,586
Add. Depreciation	743	965	1,110	1,251
Add. Interest	48	85	60	60
Less Financial Other Income	275	165	181	190
Add. Other	80	(165)	(181)	(190)
Op. profit before WC changes	3,095	3,199	4,022	4,706
Net Changes-WC	(750)	32	(898)	(1,034)
Direct tax	(688)	(606)	(764)	(904)
<b>Net cash from Op. activities</b>	<b>1,658</b>	<b>2,624</b>	<b>2,360</b>	<b>2,768</b>
Capital expenditures	(1,773)	(2,500)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	731	165	181	190
<b>Net Cash from Invt. activities</b>	<b>(1,042)</b>	<b>(2,335)</b>	<b>(819)</b>	<b>(810)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(13)	(85)	(60)	(60)
Dividend paid	(585)	(819)	(937)	(1,054)
Interest paid	-	-	-	-
Others	(17)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(614)</b>	<b>(904)</b>	<b>(997)</b>	<b>(1,114)</b>
<b>Net change in cash</b>	<b>2</b>	<b>(615)</b>	<b>545</b>	<b>845</b>
Free Cash Flow	141	124	1,360	1,768

Source: Company Data, PL Research

**Key Financial Metrics**

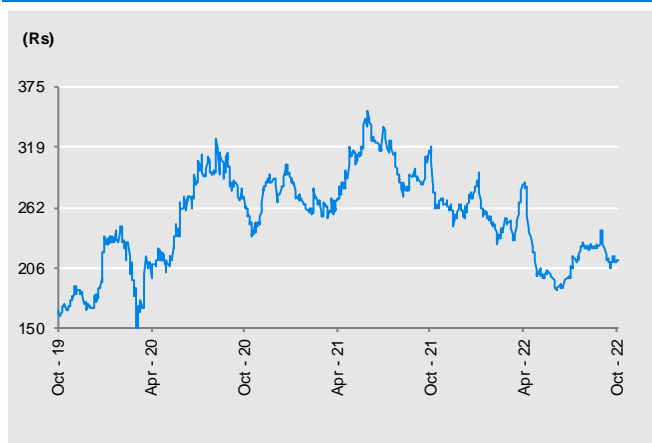
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	8.4	8.8	11.7	13.8
CEPS	12.3	13.7	17.4	20.2
BVPS	87.2	91.8	98.6	107.0
FCF	0.7	0.6	7.0	9.1
DPS	3.0	3.5	4.0	4.5
<b>Return Ratio(%)</b>				
RoCE	11.8	12.4	15.2	16.8
ROIC	10.4	10.4	13.2	15.1
RoE	10.0	9.8	12.3	13.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	89	79	78	79
<b>Valuation(x)</b>				
PER	26.8	25.8	19.4	16.4
P/B	2.6	2.5	2.3	2.1
P/CEPS	18.4	16.5	13.0	11.2
EV/EBITDA	15.3	13.3	10.4	8.7
EV/Sales	1.6	1.4	1.2	1.0
Dividend Yield (%)	1.3	1.5	1.8	2.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>6,281</b>	<b>5,075</b>	<b>8,628</b>	<b>9,512</b>
YoY gr. (%)	10.1	7.7	16.5	30.7
Raw Material Expenses	3,755	3,311	5,535	6,249
Gross Profit	2,526	1,765	3,092	3,263
Margin (%)	40.2	34.8	35.8	34.3
<b>EBITDA</b>	<b>674</b>	<b>(28)</b>	<b>1,127</b>	<b>1,176</b>
YoY gr. (%)	12.1	(116.0)	(7.3)	33.7
Margin (%)	10.7	(0.6)	13.1	12.4
Depreciation / Depletion	184	197	247	220
<b>EBIT</b>	<b>490</b>	<b>(225)</b>	<b>880</b>	<b>956</b>
Margin (%)	7.8	(4.4)	10.2	10.0
Net Interest	14	12	17	23
Other Income	55	75	40	21
<b>Profit before Tax</b>	<b>531</b>	<b>(162)</b>	<b>903</b>	<b>954</b>
Margin (%)	8.4	(3.2)	10.5	10.0
Total Tax	135	(21)	235	244
Effective tax rate (%)	25.5	12.9	26.0	25.5
<b>Profit after Tax</b>	<b>396</b>	<b>(142)</b>	<b>668</b>	<b>710</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>396</b>	<b>(142)</b>	<b>668</b>	<b>710</b>
YoY gr. (%)	0.1	(320.3)	(18.8)	25.8
Margin (%)	6.3	(2.8)	7.7	7.5
Extra Ord. Income / (Exp)	-	-	6	-
<b>Reported PAT</b>	<b>396</b>	<b>(142)</b>	<b>675</b>	<b>710</b>
YoY gr. (%)	(13.3)	(274.8)	(18.1)	25.8
Margin (%)	6.3	(2.8)	7.8	7.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>396</b>	<b>(142)</b>	<b>675</b>	<b>710</b>
Avg. Shares O/s (m)	195	195	195	195
<b>EPS (Rs)</b>	<b>2.0</b>	<b>(0.7)</b>	<b>3.4</b>	<b>3.7</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	250	206
2	22-Sep-22	BUY	250	224
3	21-Jul-22	BUY	230	205
4	04-Jul-22	BUY	230	189
5	29-Jun-22	BUY	230	187
6	23-Apr-22	Hold	260	254
7	08-Apr-22	Hold	280	263
8	20-Jan-22	Hold	280	277
9	12-Jan-22	Accumulate	270	279
10	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	4,803
2	Chambal Fertilizers & Chemicals	BUY	480	320
3	Coromandel International	BUY	1,200	973
4	Dhanuka Agritech	BUY	850	658
5	Godrej Agrovet	Accumulate	570	520
6	Insecticides India	Hold	920	701
7	P.I. Industries	BUY	3,450	2,956
8	Rallis India	BUY	250	206
9	Sharda Cropchem	BUY	740	431
10	Sumitomo Chemical India	BUY	510	511
11	UPL	BUY	1,020	665

**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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