

April 27, 2023

## Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	200		240	
Sales (Rs. m)	32,040	35,631	33,914	38,356
% Chng.	(5.5)	(7.1)		
EBITDA (Rs. m)	3,360	3,924	3,871	4,483
% Chng.	(13.2)	(12.5)		
EPS (Rs.)	9.3	11.2	11.1	13.1
% Chng.	(15.8)	(14.8)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	26,039	29,670	32,040	35,631
EBITDA (Rs. m)	2,741	2,183	3,360	3,924
Margin (%)	10.5	7.4	10.5	11.0
PAT (Rs. m)	1,642	913	1,811	2,177
EPS (Rs.)	8.4	4.7	9.3	11.2
Gr. (%)	(25.1)	(44.4)	98.3	20.2
DPS (Rs.)	3.0	2.5	4.0	4.5
Yield (%)	1.6	1.3	2.1	2.4
RoE (%)	10.0	5.3	10.2	11.6
RoCE (%)	11.8	7.1	12.6	14.3
EV/Sales (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	12.8	16.3	10.3	8.7
PE (x)	22.6	40.7	20.5	17.1
P/BV (x)	2.2	2.1	2.0	1.9

### Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.271 / Rs.183
Sensex / Nifty	60,301 / 17,814
Market Cap	Rs.37bn/ \$ 454m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.50.87m

### Shareholding Pattern (%)

Promoter's	50.09
Foreign	7.09
Domestic Institution	14.48
Public & Others	28.33
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	(17.9)	(21.0)
Relative	(6.9)	(18.9)	(24.9)

Himanshu Binani

himanshubinani@plindia.com | 91-22-66322232

## Rallis India (RALI IN)

Rating: HOLD | CMP: Rs191 | TP: Rs200

### Weak quarter; outlook remains bleak

#### Quick Pointers:

- Domestic/exports business grew 12%/25% YoY in FY23.
- Higher provisions & impairment charges in seeds business drags overall performance.

**We trim our EPS estimates by 16%/15% for FY24E/25E citing slower revenue growth and margin pressure, amid forecast of an El-nino event in the upcoming monsoon season. Accordingly, we maintain 'HOLD' rating on the stock with revised TP of Rs200 from Rs240 earlier based on 18x FY25 EPS.**

**Rallis India (RALI) 4QFY23 results were below our and consensus expectations primarily led by (a) domestic crop protection (CP) revenue remaining flat YoY; (b) export revenues up by 7% YoY; (c) seed revenues down 3% YoY to Rs250mn; (d) Gross margins contracting by 800bps YoY to 26.7%, led by provisions of inventory (Rs400mn) & impairment of intangible assets (Rs240mn) in seeds business (Ex- off provisions stood at 39%; PLe 38%);(e) Lower gross profit coupled with higher opex (up 300bps YoY) pertaining to increased A&P spends before kharif season and provisioning of Rs46mn for notice served by MBPT during the year resulting in widening of EBITDA loss at Rs653mn v/s loss of Rs28mn in 4QFY22. Adjusting to the provisions, EBITDA/PAT loss stood at Rs19mn/Rs54mn as against loss of Rs28mn/142mn in the base quarter. Additionally, RALI also launched 3 and 5 new products each under 9(3) and 9(4) category respectively in FY23 while CRAMS gaining traction; MPP plant is nearing completion and is expected to be commissioned by Q1FY24. Maintain 'HOLD'.**

- Domestic Crop Protection (CP) business- Continues to face headwinds:** Domestic CP segment remained flat YoY, primarily driven by erratic monsoon resulting in lower pest infestation. This in-turn had led to higher piling up of inventories particularly in insecticides grades. Going forward, management remained cautious on the upcoming kharif season led by a) forecast of El-nino event in the second half of the monsoon season (Mid-August to September); b) considerably higher channel inventory likely to result in lower volume growth; and c) declining RM prices which would result into margin pressures. For full year FY23, RALI launched 3 new 9(3) products and 5 new 9(4) products in the domestic market. Better product launches are reflective in Innovation turnover index (ITI) which has improved from 11% in FY22 to 13% in FY23.
- Exports business- At a better-off position; up 7% YoY in 4Q:** Exports business were up by 7% YoY in 4QFY23 and 25% YoY in FY23, primarily led by higher volumes due to enhanced capacities and price led growth. Going forward, management alluded that inventory situation in the global market continues to be stretched and can result into moderate growth. Further, they indicated that pricing pressure persist for its key products like Acephate, in Brazil and Hexaconazole in the South East Asian markets. Metribuzin have witnessed a gradual pick-up in revenues on YoY basis, largely led by normalization of inventories in the global market. PEKK shipments started and are expected to pick-up from 2HFY24.

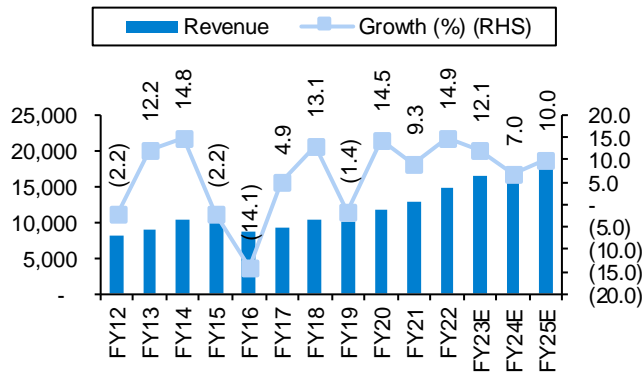
## Other Key highlights

- **CRAMS business- PEKK shipments to pick up from 2HFY24:** In CRAMS business PEKK shipments have started from Q4FY23 citing revival in the aviation industry. Management cited that it would take at least 6-9 months for the plants to run at decent capacity utilization. RALI has three small contracts signed up in CRAMS business, while they also have several projects which are at various laboratories and pilot stages.
- **Seeds business - Higher provisions in the segment led to EBITDA loss:** Seeds revenues were flat YoY during 4QFY23 largely led by lower volumes. EBITDA loss stood at Rs830mn as against Rs250mn in the same quarter led by higher inventory provision of Rs398mn & impairments of intangibles of Rs236Mn during 4QFY23. Management mentioned that seeds business is likely to operate under challenging environment in the upcoming quarters. However, 'Diggaz'-Cotton hybrid has performed exceptionally well during FY23.
- **Crop Nutrition business- up 22% YoY in FY23:** Continues to outperform registering a growth of 22% YoY in FY23. RALI launched 3 new products- Rallizin, Paclo and Geogreen in the crop nutrition business in FY23. Biologicals, Micro Nutrients and Soil moisture products are gaining good traction and recently launched products have been well received by the customers.
- **Improvement in working Capital:** RALI's working capital improved during the quarter led by better collection in both domestic and export markets. Receivable days decreased largely on account of 1) moderation in payment scheme in domestic market and 2) discounting of receivable for an international customer. With higher channel inventory and subdued demand both at domestic and international market, working capital is likely to be stretched in the subsequent quarters.
- **Capex Guidance:** For FY23, company has spent around Rs1.9bn largely towards setting up of MPP plant, likely to be commissioned by Q1FY24. Going forward, company is expected to spend around Rs1.5-1.8bn in FY24E.

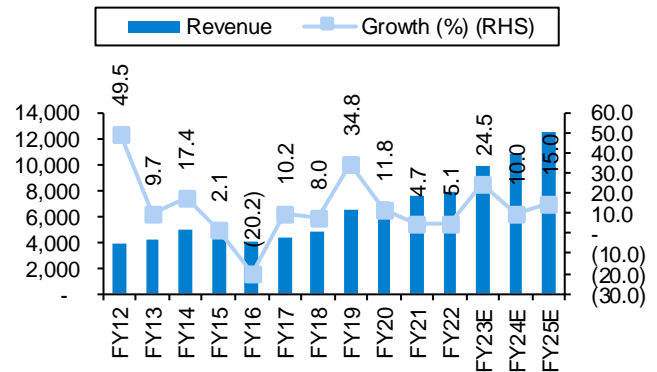
**Exhibit 1: 4QFY23 Result Overview (Rs mn)**

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Revenues</b>	<b>5,226</b>	<b>5,075</b>	<b>3.0</b>	<b>6,304</b>	<b>(17.1)</b>	<b>29,670</b>	<b>26,039</b>	<b>13.9</b>
Raw material	3,828	3,311	15.6	3,821	0.2	19,433	16,236	19.7
Staff costs	607	552	10.0	645	(5.9)	2,558	2,391	6.9
Others	1,443	1,241	16.3	1,305	10.6	5,496	4,672	17.6
Total expenditure	<b>5,879</b>	<b>5,104</b>	<b>15.2</b>	<b>5,771</b>	<b>1.9</b>	<b>27,486</b>	<b>23,299</b>	<b>18.0</b>
<b>EBITDA</b>	<b>(653)</b>	<b>(28)</b>	<b>2,197.5</b>	<b>533</b>	<b>(222.4)</b>	<b>2,183</b>	<b>2,741</b>	<b>(20.3)</b>
Depreciation	226	197	15.1	220	2.7	914	743	22.9
<b>EBIT</b>	<b>(879)</b>	<b>(225)</b>	<b>290.6</b>	<b>313</b>	<b>(380.9)</b>	<b>1,270</b>	<b>1,997</b>	<b>(36.4)</b>
Interest	49	12	300.8	34	45.4	122	48	155.5
Add: Other income	45	75	(39.5)	21	117.8	127	275	(53.7)
<b>Profit Before Tax</b>	<b>(883)</b>	<b>(162)</b>	<b>443.6</b>	<b>300</b>	<b>(394.6)</b>	<b>1,274</b>	<b>2,224</b>	<b>(42.7)</b>
Less: Provision for Tax	(192)	(21)	816.3	74	(358.1)	361	582	(38.0)
Less: Minority Interest	-	0	NA	-	NA	-	-	
<b>Adjusted Profit</b>	<b>(691)</b>	<b>(142)</b>	<b>387.2</b>	<b>225</b>	<b>(406.6)</b>	<b>913</b>	<b>1,642</b>	<b>(44.4)</b>
Add: Exceptional items (net of tax)	-	-	NA	-	NA	-	-	
<b>Reported Profit</b>	<b>(691)</b>	<b>(142)</b>	<b>387.2</b>	<b>225</b>	<b>(406.6)</b>	<b>913</b>	<b>1,642</b>	<b>(44.4)</b>
No. of shares (mn)	195	195		195		195	195	
<b>Adjusted Diluted EPS</b>	<b>(3.6)</b>	<b>(0.7)</b>	<b>387.2</b>	<b>1.2</b>	<b>(406.6)</b>	<b>4.7</b>	<b>8.4</b>	<b>(44.4)</b>
<b>As % of net revenues</b>								
Raw material	73.3	65.2		60.6		65.5	62.4	
Staff expenses	11.6	10.9		10.2		8.6	9.2	
Other expenses	27.6	24.5		20.7		18.5	17.9	
EBITDA	(12.5)	(0.6)		8.5		7.4	10.5	
Net profit	(13.2)	(2.8)		3.6		3.1	6.3	

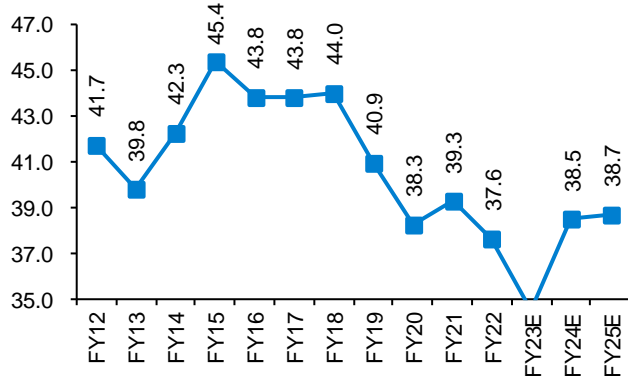
Source: Company, PL

**Exhibit 2: New product launches to support domestic growth**


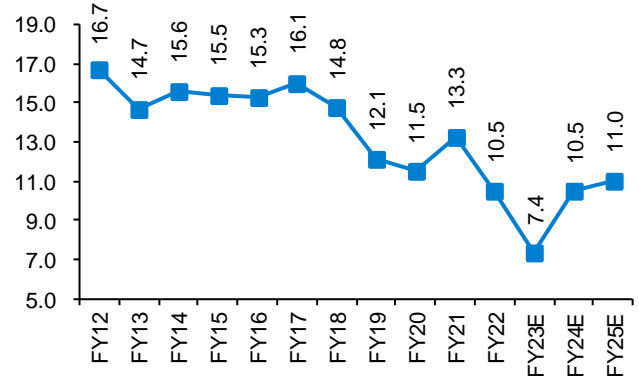
Source: Company, PL

**Exhibit 3: 25% YoY growth in Int'l business on a lower base**


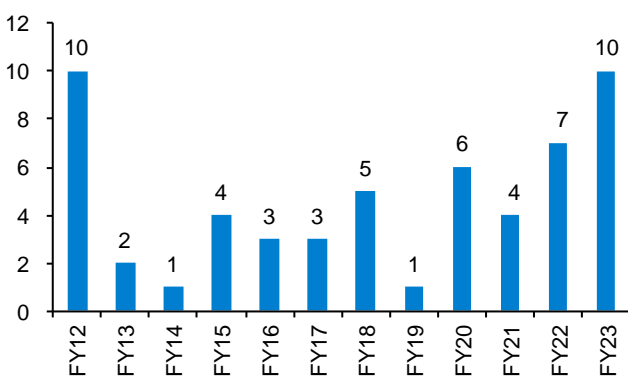
Source: Company, PL

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


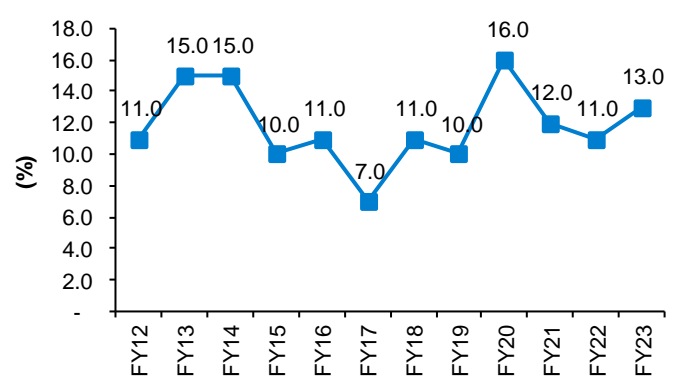
Source: Company, PL

**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	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>26,039</b>	<b>29,670</b>	<b>32,040</b>	<b>35,631</b>
YoY gr. (%)	7.2	13.9	8.0	11.2
Cost of Goods Sold	16,236	19,433	19,712	21,841
Gross Profit	9,804	10,236	32,040	35,631
Margin (%)	37.6	34.5	100.0	100.0
Employee Cost	2,391	2,558	2,813	3,095
Other Expenses	4,672	5,496	6,155	6,771
<b>EBITDA</b>	<b>2,741</b>	<b>2,183</b>	<b>3,360</b>	<b>3,924</b>
YoY gr. (%)	(15.1)	(20.3)	53.9	16.8
Margin (%)	10.5	7.4	10.5	11.0
Depreciation and Amortization	743	914	1,004	1,102
<b>EBIT</b>	<b>1,997</b>	<b>1,270</b>	<b>2,357</b>	<b>2,822</b>
Margin (%)	7.7	4.3	7.4	7.9
Net Interest	48	122	75	65
Other Income	275	127	140	154
<b>Profit Before Tax</b>	<b>2,224</b>	<b>1,274</b>	<b>2,421</b>	<b>2,911</b>
Margin (%)	8.5	4.3	7.6	8.2
Total Tax	582	361	610	734
Effective tax rate (%)	26.2	28.3	25.2	25.2
<b>Profit after tax</b>	<b>1,642</b>	<b>913</b>	<b>1,811</b>	<b>2,177</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,642</b>	<b>913</b>	<b>1,811</b>	<b>2,177</b>
YoY gr. (%)	(25.1)	(44.4)	98.3	20.2
Margin (%)	6.3	3.1	5.7	6.1
Extra Ord. Income / (Exp)	-	6	-	-
<b>Reported PAT</b>	<b>1,642</b>	<b>919</b>	<b>1,811</b>	<b>2,177</b>
YoY gr. (%)	(28.2)	(44.0)	97.0	20.2
Margin (%)	6.3	3.1	5.7	6.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,642	919	1,811	2,177
<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>4.7</b>	<b>9.3</b>	<b>11.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>9,875</b>	<b>10,440</b>	<b>12,240</b>	<b>13,440</b>
Tangibles	9,875	10,440	12,240	13,440
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,451</b>	<b>4,364</b>	<b>5,368</b>	<b>6,470</b>
Tangibles	3,451	4,364	5,368	6,470
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,424</b>	<b>6,076</b>	<b>6,872</b>	<b>6,970</b>
Tangibles	6,424	6,076	6,872	6,970
Intangibles	-	-	-	-
Capital Work In Progress	667	1,912	1,912	1,912
Goodwill	1,958	1,958	1,958	1,958
Non-Current Investments	32	32	32	32
Net Deferred tax assets	(213)	(123)	(123)	(123)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	2,087	2,194	2,194	2,194
Inventories	9,380	7,929	9,991	11,070
Trade receivables	4,459	4,986	5,384	5,988
Cash & Bank Balance	631	461	1,334	1,680
Other Current Assets	1,340	874	961	1,058
<b>Total Assets</b>	<b>28,580</b>	<b>27,977</b>	<b>32,366</b>	<b>34,796</b>
<b>Equity</b>				
Equity Share Capital	195	195	195	195
Other Equity	16,772	17,106	17,981	19,104
<b>Total Network</b>	<b>16,967</b>	<b>17,301</b>	<b>18,175</b>	<b>19,299</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	38	27	27	27
Provisions	806	819	819	819
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	542	1,011	1,011	1,011
Trade payables	7,525	5,883	8,641	9,574
Other current liabilities	2,489	2,815	3,570	3,944
<b>Total Equity &amp; Liabilities</b>	<b>28,580</b>	<b>27,977</b>	<b>32,366</b>	<b>34,796</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,224	1,281	2,421	2,911
Add. Depreciation	743	914	1,004	1,102
Add. Interest	48	122	75	65
Less Financial Other Income	275	127	140	154
Add. Other	80	96	(140)	(154)
Op. profit before WC changes	3,095	2,412	3,360	3,924
Net Changes-WC	(750)	118	795	(679)
Direct tax	(688)	(361)	(610)	(734)
<b>Net cash from Op. activities</b>	<b>1,658</b>	<b>2,169</b>	<b>3,545</b>	<b>2,512</b>
Capital expenditures	(1,773)	(1,810)	(1,800)	(1,200)
Interest / Dividend Income	-	-	-	-
Others	731	20	140	154
<b>Net Cash from Invst. activities</b>	<b>(1,042)</b>	<b>(1,790)</b>	<b>(1,660)</b>	<b>(1,046)</b>
Issue of share cap. / premium	-	0	-	-
Debt changes	(13)	336	(75)	(65)
Dividend paid	(585)	(585)	(937)	(1,054)
Interest paid	-	-	-	-
Others	(17)	(90)	-	-
<b>Net cash from Fin. activities</b>	<b>(614)</b>	<b>(340)</b>	<b>(1,012)</b>	<b>(1,119)</b>
<b>Net change in cash</b>	<b>2</b>	<b>39</b>	<b>873</b>	<b>347</b>
Free Cash Flow	141	367	1,745	1,312

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	8.4	4.7	9.3	11.2
CEPS	12.3	9.4	14.5	16.9
BVPS	87.2	88.9	93.4	99.2
FCF	0.7	1.9	9.0	6.7
DPS	3.0	2.5	4.0	4.5
<b>Return Ratio(%)</b>				
RoCE	11.8	7.1	12.6	14.3
ROIC	10.4	6.0	11.6	13.3
RoE	10.0	5.3	10.2	11.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	89	87	77	77
<b>Valuation(x)</b>				
PER	22.6	40.7	20.5	17.1
P/B	2.2	2.1	2.0	1.9
P/CEPS	15.6	20.3	13.2	11.3
EV/EBITDA	12.8	16.3	10.3	8.7
EV/Sales	1.3	1.2	1.1	1.0
Dividend Yield (%)	1.6	1.3	2.1	2.4

Source: Company Data, PL Research

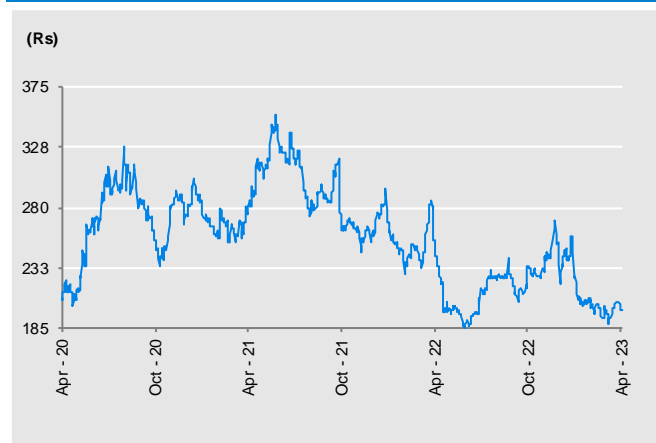
### Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>8,628</b>	<b>9,512</b>	<b>6,304</b>	<b>5,226</b>
YoY gr. (%)	16.5	30.7	0.4	3.0
Raw Material Expenses	5,535	6,249	3,821	3,828
Gross Profit	3,092	3,263	2,483	1,398
Margin (%)	35.8	34.3	39.4	26.7
<b>EBITDA</b>	<b>1,127</b>	<b>1,176</b>	<b>533</b>	<b>(653)</b>
YoY gr. (%)	(7.3)	33.7	(20.9)	2,197.5
Margin (%)	13.1	12.4	8.5	(12.5)
Depreciation / Depletion	247	220	220	226
<b>EBIT</b>	<b>880</b>	<b>956</b>	<b>313</b>	<b>(879)</b>
Margin (%)	10.2	10.0	5.0	(16.8)
Net Interest	17	23	34	49
Other Income	40	21	21	45
<b>Profit before Tax</b>	<b>903</b>	<b>954</b>	<b>300</b>	<b>(883)</b>
Margin (%)	10.5	10.0	4.8	(16.9)
Total Tax	235	244	74	(192)
Effective tax rate (%)	26.0	25.5	24.8	21.7
<b>Profit after Tax</b>	<b>668</b>	<b>710</b>	<b>225</b>	<b>(691)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>668</b>	<b>710</b>	<b>225</b>	<b>(691)</b>
YoY gr. (%)	(18.8)	25.8	(43.0)	387.2
Margin (%)	7.7	7.5	3.6	(13.2)
Extra Ord. Income / (Exp)	6	-	-	-
<b>Reported PAT</b>	<b>675</b>	<b>710</b>	<b>225</b>	<b>(691)</b>
YoY gr. (%)	(18.1)	25.8	(43.0)	387.2
Margin (%)	7.8	7.5	3.6	(13.2)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>675</b>	<b>710</b>	<b>225</b>	<b>(691)</b>
Avg. Shares O/s (m)	195	195	195	195
<b>EPS (Rs)</b>	<b>3.4</b>	<b>3.7</b>	<b>1.2</b>	<b>(3.6)</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Hold	240	205
2	19-Jan-23	Hold	240	224
3	05-Jan-23	BUY	250	245
4	21-Oct-22	BUY	250	226
5	04-Oct-22	BUY	250	206
6	22-Sep-22	BUY	250	224
7	21-Jul-22	BUY	230	205
8	04-Jul-22	BUY	230	189
9	29-Jun-22	BUY	230	187

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,630	4,125
2	Chambal Fertilizers & Chemicals	BUY	360	279
3	Coromandel International	BUY	1,350	934
4	Dhanuka Agritech	BUY	940	639
5	Godrej Agrovet	Accumulate	570	430
6	Insecticides India	Accumulate	700	491
7	P.I. Industries	BUY	4,500	3,030
8	Rallis India	Hold	240	205
9	Sharda Cropchem	BUY	660	470
10	Sumitomo Chemical India	BUY	590	428
11	UPL	BUY	1,070	735

## 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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