

July 19, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		HOLD	
Target Price	180		200	
Sales (Rs. m)	31,790	35,331	32,040	35,631
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	3,352	4,032	3,360	3,924
% Chng.	(0.3)	2.7		
EPS (Rs.)	9.0	11.1	9.3	11.2
% Chng.	(3.6)	(0.7)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	26,039	29,670	31,790	35,331
EBITDA (Rs. m)	2,741	2,183	3,352	4,032
Margin (%)	10.5	7.4	10.5	11.4
PAT (Rs. m)	1,642	913	1,746	2,161
EPS (Rs.)	8.4	4.7	9.0	11.1
Gr. (%)	(25.1)	(44.4)	91.2	23.8
DPS (Rs.)	3.0	2.5	4.0	4.5
Yield (%)	1.4	1.1	1.8	2.0
RoE (%)	10.0	5.3	9.9	11.6
RoCE (%)	11.8	7.1	12.3	14.5
EV/Sales (x)	1.6	1.4	1.3	1.1
EV/EBITDA (x)	14.9	18.9	12.0	9.8
PE (x)	26.2	47.0	24.6	19.9
P/BV (x)	2.5	2.5	2.4	2.2

Key Data

RALL.BO | RALI IN

52-W High / Low	Rs.271 / Rs.187
Sensex / Nifty	66,795 / 19,749
Market Cap	Rs.43bn / \$ 524m
Shares Outstanding	194m
3M Avg. Daily Value	Rs.117.71m

Shareholding Pattern (%)

Promoter's	50.09
Foreign	7.69
Domestic Institution	13.51
Public & Others	28.69
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.6	(10.0)	6.6
Relative	7.8	(17.8)	(13.0)

Himanshu Binani

himanshubinani@plindia.com | 91-22-66322232

Near term challenges likely to persist

Quick Pointers:

- Domestic/exports business de-grew 5%/30% YoY in 1QFY24.
- Launched 3 new products in CP segment during 1QFY24.

We trim our FY24/25E EPS estimates by 5%/2% and downgrade the rating to 'REDUCE' (Earlier HOLD) citing 1) slower revenue growth and margin pressure amid delayed uneven distribution of rainfall (till date) and 2) increasing El-nino concerns in 2H of the monsoon season.

Rallis India's (RALI) 1QFY24 results were better than our and consensus expectations primarily led by better margins. The company highlighted that (a) domestic crop protection (CP) revenue declined by 5% YoY, (b) export revenues were down by 30% YoY, (c) seed revenues were down 2% YoY to Rs2.6bn, (d) gross margins expanded by 260bps YoY to 38.5% led by better product mix, (e) EBITDA margins up 100bps YoY to 14.1%, led by lower RM cost and better cost efficiencies, (f) launched 3 insecticides in CP segment and (g) CRAMS gained traction plus PEKK shipments commenced (volumes to pick-up gradually). Citing near term headwinds we downgrade our rating to 'REDUCE' (Earlier HOLD) with revised TP of Rs180 from Rs200 earlier based on 16x FY25 EPS (earlier 18x FY25 EPS).

- Domestic CP business- Impacted from high channel inventory & pricing pressure:** Domestic CP business declined 5% YoY to Rs3.8bn primarily due to delayed and uneven distribution of rainfall coupled with high channel inventory. This coupled with oversupply from China has in-turn led to pricing pressure on product prices. Channel inventory continues to be on higher side leaving limited room for further inventory push into the market, while trade is on wait-and-watch mode more likely to purchase closer to consumption. Nevertheless, with recent improvement in rainfall activity (from last week of June'23 onwards), RALI remains confident of improved performance over the subsequent quarter. More so in 1QFY24 the company had also launched 3 insecticides and 1 water soluble fertilizer product.
- Exports continue to be under pressure (down 30% YoY in 1QFY24):** Exports were down by 30% YoY in 1QFY24 primarily led by lower volume growth due to high inventory buildup in key regions coupled with pricing erosion across generic active ingredients. Management indicated that pricing pressure will likely persist for key products like Acephate in Brazil and Hexaconazole in South East Asian markets. Metribuzin and Pendimethalin demand continues to be stable. Further, PEKK shipments have started and are expected to gradually pick up. Going forward, management remained cautious on international market and alluded for demand recovery 2HFY24 onwards.
- Margin expansion led by declining RM cost and cost efficiencies:** RALI's gross margins expanded by 260 bps YoY to 38.5% primarily led by declining RM cost and better product mix. This coupled with better cost efficiencies have resulted into an EBITDA margin expansion of 100bps YoY to 14.1% (PL

10.8%). CP and seeds segment EBITDA margin stood at 11.2%/19.8% (+170 bps/ -120 bps YoY). Going forward, we believe margin improvement will likely continue in FY24 primarily led by lower RM price and lower base of FY23.

Other Key highlights:

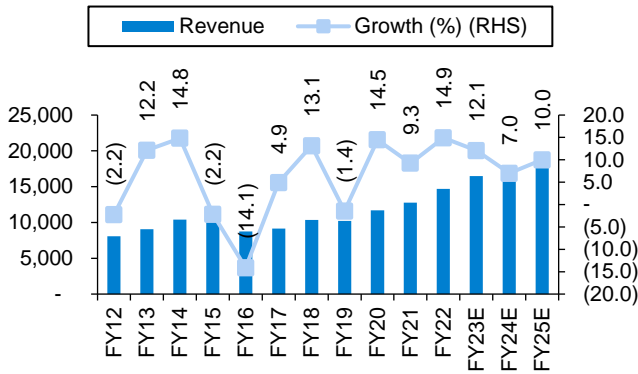
- **CRAMS business- PEKK shipments to pick up from 2HFY24:** In CRAMS business PEKK shipments started from 4QFY23, citing revival in aviation industry. Management cited that it would take at least 6-9 months for plants to run at a decent capacity utilization. RALI has three small contracts signed up in CRAMS business, while they also have several projects at the various laboratory and pilot stages.
- **Seeds business- Revenues down by 2%YoY in 1QFY24** largely led by lower volumes. Management alluded of better product placements and marketing engagements with farmers across regions in this segment. Further, RALI launched 2 new maize hybrids, 1 paddy and 1 cotton hybrid each in 1QFY24. Cotton hybrid 'Diggaz' have received very good response particularly from North India and estimated sales are ~4 lakh packets in 1QFY24 as against 1.5 lakh packets in the corresponding period last year.
- **New product launches:** RALI launched 3 new insecticides in domestic CP business in 1QFY24; 1) Gateway (Chlorantraniliprole 18.5 % SC); 2) Gateway Gr (Chlorantraniliprole 0.4% GR); and 3) Boris Super (Pyriproxyfen 8% + Diafenthiuron 30% SE). Further, RALI would be sourcing Chlorantraniliprole (CTPR) technical from local suppliers.
- **Capex Guidance:-** For FY24, company guided to spend around Rs1.5bn. Major capex is likely to be deployed in the R&D centre and debottlenecking of plants.

Exhibit 1: 1QFY24 Result Overview (Rs mn)

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Revenues	7,820	8,628	(9.4)	5,226	49.6	31,790	29,670	7.1
Raw material	4,810	5,535	(13.1)	3,828	25.6	19,470	19,433	0.2
Staff costs	660	660	0.0	607	8.7	2,813	2,557	10.0
Others	1,250	1,306	(4.3)	1,443	(13.4)	6,155	5,496	12.0
Total expenditure	6,720	7,501	(10.4)	5,879	14.3	28,438	27,486	3.5
EBITDA	1,100	1,127	(2.4)	(653)	(268.6)	3,352	2,183	53.5
Depreciation	250	247	1.3	226	10.5	1,051	914	15.0
EBIT	850	880	(3.4)	(879)	(196.7)	2,301	1,270	81.2
Interest	30	17	79.6	49	(39.1)	75	122	(38.7)
Add: Other income	30	40	(25.4)	45	(33.8)	140	127	10.0
Profit Before Tax	850	903	(5.9)	(883)	(196.3)	2,366	1,274	85.6
Less: Provision for Tax	220	235	(6.3)	(192)	(214.9)	620	361	71.6
Less: Minority Interest	-	-	NA	-	NA	-	-	-
Adjusted Profit	630	668	(5.8)	(691)	(191.1)	1,746	913	91.2
Add: Exceptional items (net of tax)	-	6	NA	-	NA	-	-	-
Reported Profit	630	675	(6.6)	(691)	(191.1)	1,746	913	91.2
No. of shares (mn)	195	195		195		195	195	
Adjusted Diluted EPS	3.2	3.4	(5.8)	(3.6)	(191.1)	9.0	4.7	91.2
As % of net revenues								
Raw material	61.5	64.2		73.3		61.2	65.5	
Staff expenses	8.4	7.6		11.6		8.8	8.6	
Other expenses	16.0	15.1		27.6		19.4	18.5	
EBITDA	14.1	13.1		(12.5)		10.5	7.4	
Net profit	8.1	7.7		(13.2)		5.5	3.1	

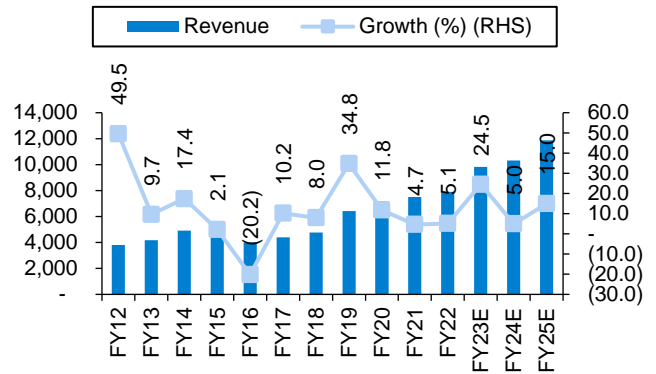
Source: Company, PL

Exhibit 2: New product launches to support domestic growth



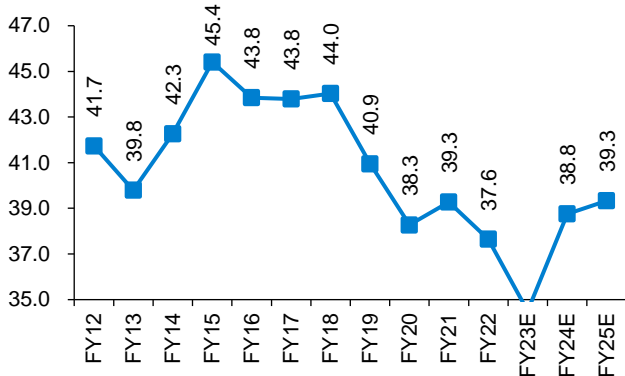
Source: Company, PL

Exhibit 3: Int'l business likely to be under pressure (Rs mn)



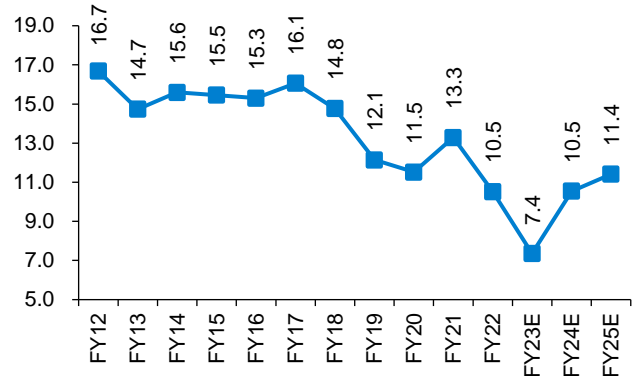
Source: Company, PL

Exhibit 4: Lower RM cost likely to aid gross margins (%)



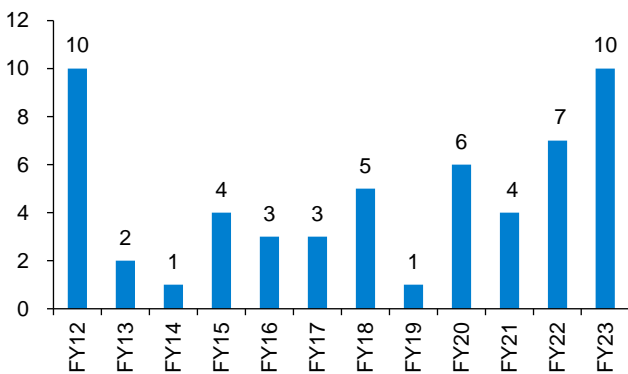
Source: Company, PL

Exhibit 5: ..resulting into improved EBITDA margin (%)



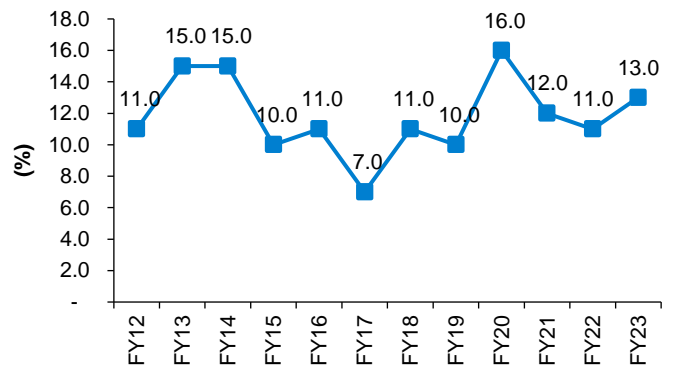
Source: Company, PL

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
Net Revenues	26,039	29,670	31,790	35,331
YoY gr. (%)	7.2	13.9	7.1	11.1
Cost of Goods Sold	16,236	19,433	19,470	21,434
Gross Profit	9,804	10,236	31,790	35,331
Margin (%)	37.6	34.5	100.0	100.0
Employee Cost	2,391	2,557	2,813	3,095
Other Expenses	4,672	5,496	6,155	6,771
EBITDA	2,741	2,183	3,352	4,032
YoY gr. (%)	(15.1)	(20.3)	53.5	20.3
Margin (%)	10.5	7.4	10.5	11.4
Depreciation and Amortization	743	914	1,051	1,183
EBIT	1,998	1,270	2,301	2,850
Margin (%)	7.7	4.3	7.2	8.1
Net Interest	48	122	75	75
Other Income	275	127	140	154
Profit Before Tax	2,224	1,274	2,366	2,928
Margin (%)	8.5	4.3	7.4	8.3
Total Tax	582	361	620	767
Effective tax rate (%)	26.2	28.3	26.2	26.2
Profit after tax	1,642	913	1,746	2,161
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,642	913	1,746	2,161
YoY gr. (%)	(25.1)	(44.4)	91.2	23.8
Margin (%)	6.3	3.1	5.5	6.1
Extra Ord. Income / (Exp)	-	6	-	-
Reported PAT	1,642	919	1,746	2,161
YoY gr. (%)	(28.2)	(44.0)	89.9	23.8
Margin (%)	6.3	3.1	5.5	6.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,642	919	1,746	2,161
Equity Shares O/s (m)	195	195	195	195
EPS (Rs)	8.4	4.7	9.0	11.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	9,875	10,440	11,940	13,140
Tangibles	9,875	10,440	11,940	13,140
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,451	4,364	5,415	6,598
Tangibles	3,451	4,364	5,415	6,598
Intangibles	-	-	-	-
Net fixed assets	6,424	6,076	6,525	6,543
Tangibles	6,424	6,076	6,525	6,543
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	-	-	-	-
Current Assets				
Investments	2,087	2,194	2,194	2,194
Inventories	9,380	7,929	9,868	10,864
Trade receivables	4,459	4,986	5,342	5,937
Cash & Bank Balance	631	461	1,678	2,121
Other Current Assets	1,340	874	961	1,058
Total Assets	28,580	27,977	32,198	34,552
Equity				
Equity Share Capital	195	195	195	195
Other Equity	16,772	17,106	17,915	19,023
Total Networkth	16,967	17,301	18,110	19,217
Non-Current Liabilities				
Long Term borrowings	38	27	27	27
Provisions	806	819	819	819
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	542	1,011	1,011	1,011
Trade payables	7,525	5,883	8,535	9,396
Other current liabilities	2,489	2,815	3,574	3,960
Total Equity & Liabilities	28,580	27,977	32,198	34,552

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,224	1,281	2,366	2,928
Add. Depreciation	743	914	1,051	1,183
Add. Interest	48	122	75	75
Less Financial Other Income	275	127	140	154
Add. Other	80	96	(140)	(154)
Op. profit before WC changes	3,095	2,412	3,352	4,032
Net Changes-WC	(750)	118	857	(647)
Direct tax	(688)	(361)	(620)	(767)
Net cash from Op. activities	1,658	2,169	3,589	2,618
Capital expenditures	(1,773)	(1,810)	(1,500)	(1,200)
Interest / Dividend Income	-	-	-	-
Others	731	20	140	154
Net Cash from Invt. activities	(1,042)	(1,790)	(1,360)	(1,046)
Issue of share cap. / premium	-	0	-	-
Debt changes	(13)	336	(75)	(75)
Dividend paid	(585)	(585)	(937)	(1,054)
Interest paid	-	-	-	-
Others	(17)	(90)	-	-
Net cash from Fin. activities	(614)	(340)	(1,012)	(1,129)
Net change in cash	2	39	1,217	443
Free Cash Flow	141	367	2,089	1,418

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	8.4	4.7	9.0	11.1
CEPS	12.3	9.4	14.4	17.2
BVPS	87.2	88.9	93.1	98.8
FCF	0.7	1.9	10.7	7.3
DPS	3.0	2.5	4.0	4.5
Return Ratio(%)				
RoCE	11.8	7.1	12.3	14.5
ROIC	10.4	6.0	11.4	13.7
RoE	10.0	5.3	9.9	11.6
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	89	87	77	77
Valuation(x)				
PER	26.2	47.0	24.6	19.9
P/B	2.5	2.5	2.4	2.2
P/CEPS	18.0	23.5	15.4	12.8
EV/EBITDA	14.9	18.9	12.0	9.8
EV/Sales	1.6	1.4	1.3	1.1
Dividend Yield (%)	1.4	1.1	1.8	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	9,512	6,304	5,226	7,820
YoY gr. (%)	30.7	0.4	3.0	(9.4)
Raw Material Expenses	6,249	3,821	3,828	4,810
Gross Profit	3,263	2,483	1,398	3,010
Margin (%)	34.3	39.4	26.7	38.5
EBITDA	1,176	533	(653)	1,100
YoY gr. (%)	33.7	(20.9)	2,197.5	(2.4)
Margin (%)	12.4	8.5	(12.5)	14.1
Depreciation / Depletion	220	220	226	250
EBIT	956	313	(879)	850
Margin (%)	10.0	5.0	(16.8)	10.9
Net Interest	23	34	49	30
Other Income	21	21	45	30
Profit before Tax	954	300	(883)	850
Margin (%)	10.0	4.8	(16.9)	10.9
Total Tax	244	74	(192)	220
Effective tax rate (%)	25.5	24.8	21.7	25.9
Profit after Tax	710	225	(691)	630
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	710	225	(691)	630
YoY gr. (%)	25.8	(43.0)	387.2	(5.8)
Margin (%)	7.5	3.6	(13.2)	8.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	710	225	(691)	630
YoY gr. (%)	25.8	(43.0)	387.2	(6.6)
Margin (%)	7.5	3.6	(13.2)	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	710	225	(691)	630
Avg. Shares O/s (m)	195	195	195	195
EPS (Rs)	3.7	1.2	(3.6)	3.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	200	210
2	27-Apr-23	Hold	200	191
3	11-Apr-23	Hold	240	205
4	19-Jan-23	Hold	240	224
5	05-Jan-23	BUY	250	245
6	21-Oct-22	BUY	250	226
7	04-Oct-22	BUY	250	206
8	22-Sep-22	BUY	250	224
9	21-Jul-22	BUY	230	205

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,720	4,582
2	Chambal Fertilizers & Chemicals	Hold	300	273
3	Coromandel International	BUY	1,310	961
4	Dhanuka Agritech	BUY	950	794
5	Godrej Agrovet	Hold	420	464
6	Insecticides India	Accumulate	550	448
7	P.I. Industries	BUY	4,560	3,857
8	Rallis India	Hold	200	210
9	Sharda Cropchem	BUY	640	554
10	Sumitomo Chemical India	BUY	550	449
11	UPL	BUY	850	670

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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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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